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THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART TWO

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Adequate Rx staffing essential—p. 90

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C.E. Lesson:
OTC contraception review—p. IP37

DRUG STORE NEWS

Vol. 9/No. 9 Serving chains, wholesalers and high-volume independents for 58 years. Published by Lebhar-Friedman Inc. April 27, 1987

Four categories reach 10% growth range

Pharmacy	10.5%
Stationery	10.1%
Candy	9.7%
OTC Proprietaries	9.3%

Source: *Drug Store News* survey

Sales gains were more modest at drug chains in calendar 1986. Retailers focused efforts on core health businesses, but also found success with high-margin stationery and fast-turning candy. See *Drug Store News'* 1987 Annual Report, Part Two, page 129.

Hannan named president of Thrift

Armor retiring June 1 at age 60

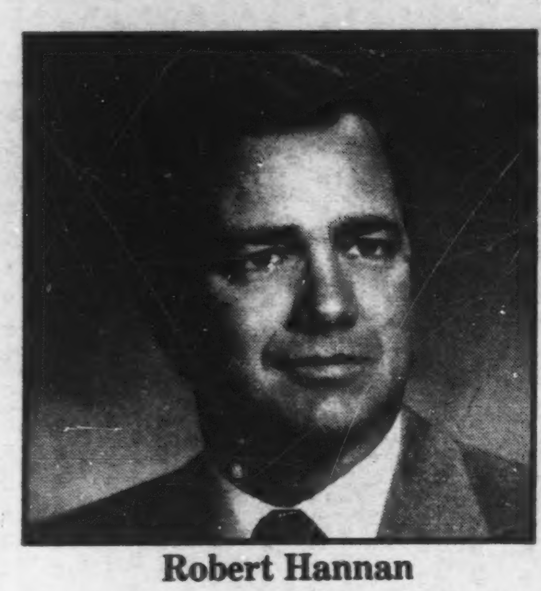
PITTSBURGH — Robert Hannan, Thrift Drugs' senior vp-corporate development, will replace president James B. Armor, who is retiring at age 60, on June 1.

A 20-year Thrift employee, Hannan will be part of a three-man Office of the President at the 392-store chain, said parent JC Penney.

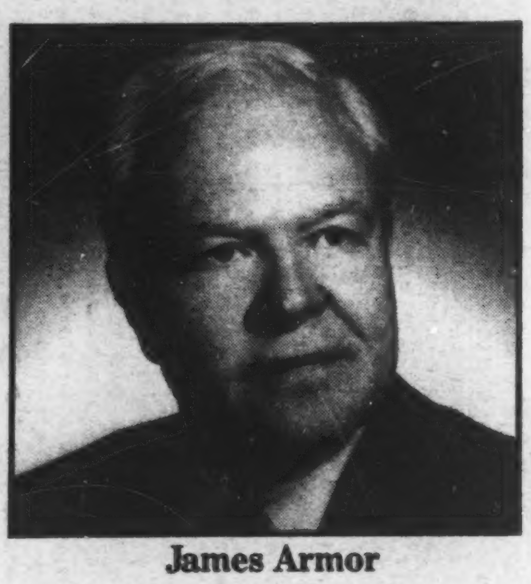
Joining Hannan in the office is Anthony Civello, named to the new post of executive vp, while keeping the duties of senior vp-store operations, his former post.

Also, Lawrence Rose was promoted to executive vp in the Office of the President. He will keep the functions of senior vp-merchandising and marketing, his former post, and assume responsibility for distribution. Civello and Rose will report to Hannan.

Armor said that the three-man Office of the President is new to Thrift, but is a concept that has been used within the parent company. JC Penney chairman William Howell, for example, is part of a five-person Office of the Chairman, which handles policy and strategic planning.



Robert Hannan



James Armor

"I think Thrift will be comfortable with the concept," said Armor, who noted that all of the Executive Committee members had been considered

See **Thrift,** *page 241*

Duane Reade steps outside of Manhattan

NEW YORK — Duane Reade, the only drug chain with a major presence in urban New York, is planning to open four more stores by the middle of 1987, including its first nonManhattan store, which will open shortly on Fulton Street in downtown Brooklyn.

President Eli Cohen says the expansion will give Duane Reade a total of 30 stores in the New York market and the potential to hit $200 million a year in annual sales by the end of 1987.

The average Duane Reade store generates between $5 million and $6 million a year in sales.

The Brooklyn store will be in a pedestrian-traffic-only district on Fulton Street. Although this will be Duane Reade's first store out of Manhattan after 23 years in business, Cohen says the location

See **Duane Reade,** *page 241*

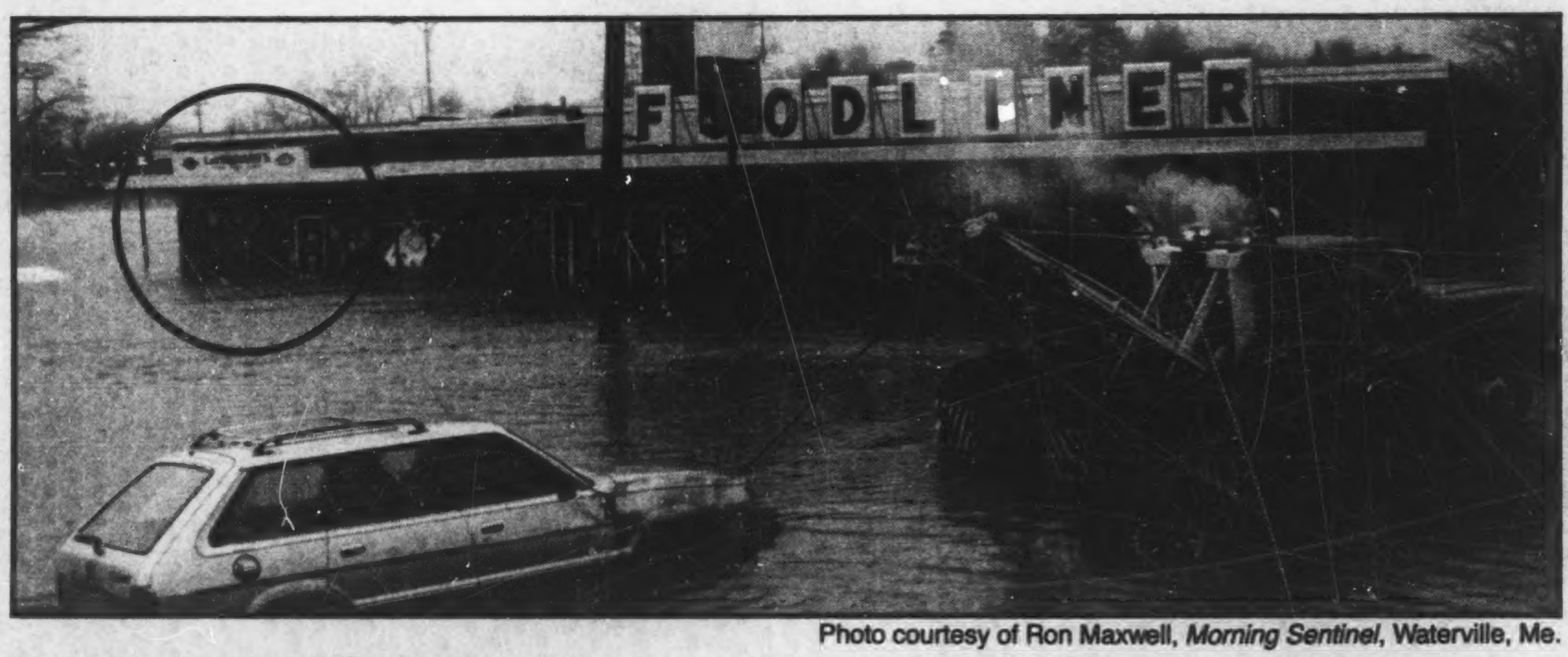


Photo courtesy of Ron Maxwell, *Morning Sentinel*, Waterville, Me.

Floodwaters at this Winslow, Me., LaVerdiere's store rose 6 ft. higher than shown in this photo.

3 LaVerdiere's rally from flood

WINSLOW, Me. — With the help of employee crews and suppliers, LaVerdiere's Super Drug Stores reopened three stores heavily damaged by the worst flooding in residents' memory.

But the 60-store chain incurred over $400,000 in uninsured damages to inventory and equipment that will severely impair earnings, said Steve LaVerdiere, president.

"Everyone really rose to the occasion. We're getting back on our feet, just like the communities and the towns," said LaVerdiere.

Teams of 20 to 30 employees, led by district managers, worked 14- to 16-hour days starting April 1, when record-level floods hit statewide.

Two LaVerdiere's unit that suffered complete inventory losses in Winslow and Gardiner were closed for eight and nine days before reopening. A Mexico, Me., store in heavy-hit Androscoggin County, with 30% inventory loss, closed for five days, LaVerdiere said.

Meanwhile, suppliers responded to an appeal by

See **LaVerdiere's** *page 241*

LATE NEWS

- WOONSOCKET, R.I.— CVS plans to open its fourth distribution center, in southern New Jersey, sometime around the middle of 1988.
- TROY, Mich. — Arbor Drugs said it has bought and will operate five clinic pharmacies in Detroit-area hospitals through a new Arbor subsidiary in a joint venture with the Detroit Medical Center Clinics Inc.
- CLEVELAND — Sherwin-Williams, which is divesting its Gray Drug Fair stores, reported corporate first-quarter sales for continuing operations of $380.5 million, compared with $332.3 million last year. Total net income was $8.2 million, up from $6.9 million in the same 1986 period. The paint firm declined to break out drug store results.

Peoples revamping cosmetics

ALEXANDRIA, Va. — Peoples Drug is in the process of developing a new prototype for its cosmetics/fragrance departments.

The prototype will move the cosmetics/fragrance section from its current position at the far side of the front of the store to the opening aisle in the front of the store.

Health and beauty aids, which is now the opening department, will be switched to the far side of the front end. Thus, cosmetics and fragrances will become the first department consumers see as they enter the store.

Four or five versions of the new prototype are scheduled to be tested this summer, and Peoples hopes to begin revamping as many as 80 to 100 existing stores by late summer or midfall.

Heightened appeal

Both cosmetics buyer Judy Wincze and executive vp-marketing Fred Edwards say the new prototype will make Peoples' cosmetics section not

See **Peoples,** *page 241*

F.T.C. official airs plan to ease co-op ad rules

WASHINGTON — In a move likely to stir fresh controversy among drug chains and independent pharmacists, a high-ranking Federal Trade Commission official announced plans to relax longstanding co-op advertising rules designed to protect small retailers from price discrimination schemes.

But the proposals unveiled earlier this month by F.T.C. Commissioner Terry Calvani would also weaken current agency ground rules preventing manufacturers from structuring their cooperative ad programs to enforce resale price maintenance conspiracies against chains.

Calvani's scheme for "improving" the commission's existing co-op ad guidelines surfaces at a time when chain and independent drug store operators are already hostile toward the F.T.C. as a result of support among the agency staffers for physician drug dispensing.

Unpopular with indys

Independents are expected to be particularly enraged by

See **Co-op** *page 241*

In this issue: Inside Pharmacy

- *Medical Malls*
- *OTC Buyer Feedback Survey*
- *Independent Focus*

Expanded housewares expo draws criticism

Buyers, vendors air format and scheduling concerns

CHICAGO — Controversy and confusion were in the air at the 86th International Housewares Exposition, as both buyers and exhibitors expressed concern over the current show format and the shifting slate of competing shows coming up later this year and next.

Many of the 55,000 retailers vendors who gathered at Chicago's McCormick Place April 5-8 were dismayed by the sheer size of the event—the only show to be held this year by the National Housewares Manufacturers Association (NHMA). The short-lived decision last year by the NHMA to abandon its twice-yearly show format forced an all-out single effort by many exhibitors and expanded the show's size significantly, making it more difficult for many buyers to cover the show in three days.

This spring for the first time, the NHMA was forced to expand the show's format into a third building at the giant, rambling exhibit center on Chicago's lakefront. Thus, the number of exhibitors allotted space and the amount of ground to cover made participation in the show an even more formidable task for retailers than in years past.

'Pretty overwhelming'

"I'm confused by the size of this show," said one chain drug buyer in Chicago. "It's all over the place, and it's gotten too big for its own good. I think it could sink under its own weight if they don't change the format."

"It's nice to come and be up on the new trends, but it's pretty overwhelming," agreed Bill Mitton of Regal Distributors, a division of Hy-Vee/Drug Town.

NHMA spokesman Sue Palmore told *Drug Store News*, "We're going to try to keep the show to just the North and East buildings next January, and realign the format to allot just three categories in each building, so there's not so much space to cover."

Buyers and vendors also expressed confusion over the shifting timetable for future shows and the growth in number of shows. The changes began last May, when the NHMA announced its decision to switch to a single annual show beginning in 1987, to be held in January beginning in 1988. The move, based on a poll of NHMA members, opened the doors to new competition as other show organizers announced plans for their own housewares shows to fill the void left by NHMA.

Other shows spring up

The first such event will be the new HouseWorld Expo, slated for Aug. 31 to Sept. 2 this year in Las Vegas. That event, which has already drawn wide interest from vendors, is being hosted by The Interface Group and directed by Ron Fippinger, former NHMA managing director.

Several other show organizers have announced plans to compete with NHMA and host their own shows in New Jersey and New York later this year or in 1988. Meanwhile, the NHMA has reversed its earlier decision and will again move to a two-show-a-year schedule beginning next year. Those shows are scheduled for Jan. 10-13 and July 11-14, 1988.

> *'I can possibly see the need for two electronics shows a year, but the number of housewares shows coming up is ridiculous.'*
> **—Mark Tow,** *Hook Drugs*

Confused and disgruntled

"One housewares show a year is enough, and April is the best time for it," noted Mark Tow, sundries and promotions coordinator for Hook Drugs. "I can possibly see the need for two electronics shows a year, but the number of housewares shows coming up is ridiculous."

Many vendors also expressed displeasure at the timing of next year's shows. Barbara Westfield, Salton director of marketing, called the once-a-year, January format "terrible from a buyer's point of view," since buyers at that time are "in the middle of inventories, and it's hard to assess where you stand and plan for the fall lines at the same time."

Attendance down

Despite the size of this year's show, however, chain drug attendance was down and industry buyers seemed more conservative and cautious than in years past. "Interest from the chains was very light and disappointing as far as buying activity and attendance go," noted Ira Shain, president of Associated Chain Drug Stores. "There's a lot of apprehension about the state of the economy and the growth in competition, and we're not predicting great things for this sales year."

At Associated's membership meeting April 6 in Chicago, Shain noted that drug chains were moving back to basics in their merchandise strategy and "looking at higher-ticket merchandise" at the Housewares Show, with higher profit margins, for their specialty aisles. "Our members are getting away from pots, pans and brooms, which everybody sells, and going for a few upscale, profitable items."

"There are so many items at the show, and it's very hard to pick and choose because we can only carry a few of them," added general merchandise expeditor Tina DiMillo of Wellby Super Drug Stores.

NEWS IN BRIEF

First National sets spending plan

WINDSOR LOCKS, Conn. — First National Supermarkets, completing its first 18 months as a privately held company, announced a four-year capital spending program that involves opening 20 new stores and remodeling selected existing stores.

The new stores will be either combos, superstores or super warehouse stores.

During the past year, First National opened two new combo Finast Super Centers, enlarged its stores in Avon, Conn., and Nantucket, Mass., and bought the four-store IJT Foodtown chain on Long Island, N.Y. The company said it will continue to close smaller, less productive stores and convert those assets into larger stores in its markets.

The company said annual sales are $1.58 billion, up from $1.39 billion when it was bought by management in September 1985.

Revco names sr. merchandise director

TWINSBURG, Ohio — Revco has named Frank Marks a senior executive merchandise director, effective April 1. He was a merchandise manager at F&M Distributors for the past six years.

Marks, 44, will be responsible for categories including consumer electronics, housewares, hardware, audio and video, film, personal care, pets and automotive.

He will report to Philip Carfagno, who is one of two divisional merchandise directors.

Marks began in store management with the S. H. Kress chain and became a senior buyer for Kress and then for Kress's parent, Genesco Corp.

Mass Merchandisers to upgrade DCs

SAN FRANCISCO — Mass Merchandisers Inc., the nonfoods and specialty foods service merchandising subsidiary of McKesson, said it will spend $10.5 million to expand its distribution complex in Harrison, Ark.

The company will add 250,000 sq. ft. to one of three warehouses at the site, consolidate into one master shipping dock, install a conveyor system between warehouses and add parking space. Work on the upgrades started last month and is expected to take one year to complete.

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Vol. 9, No. 9 April 27, 1987

Convenience, value and design inspire product introductions

CHICAGO — A general move by manufacturers toward higher-quality, more innovative products with stylish designs and added features was much in evidence at the International Housewares Show Exposition in early April.

This year, manufacturers have keyed more than ever into demands from time-strapped working couples for products that emphasize convenience, value and space-saving but upscale design.

Thus, retail buyers at the show were wooed with a host of new, compact coffeemakers, automatic-shutoff irons, food processors, miniscule microwaves and personal care product innovations. Among the highlights:

- Oster has rolled out a compact, automatic citrus juicer with its own built-in pitcher, as well as a cool-to-the-touch toaster and a four-cup, quick-heat coffeemaker. Suggested lists for the products are $18.50, $41.95 and $45.95, respectively.
- Wear-Ever/Proctor-Silex is shipping Li'l Drip, the first self-contained, portable drip coffeemaker, for a suggested list of $57.95. Innovative, space-saving drip coffeemakers were also rolled out by Melitta, Braun, Salton and other suppliers.
- Clairol introduced Sensations, a new line of five high-performance hair dryers with contemporary styling, extra features and coordinated, colorful impact packaging.
- From Conair comes Curl Dazzler, a compact hair dryer with a diffuser attachment to dry curly hair without relaxing the curl, a folding handle, and variable speed and temperature settings. New styling innovations for Conair's High Energy line include two-tone coloring, while its Thermacell collection is now tied together with clamshell packaging for easier merchandising.
- Teledyne Water Pik featured its new line of Water Pik dental products, including the Personal System and Family System home dental systems for small and larger households. The new Home Dental Center combines an automatic toothbrush and oral rinse dental system, with four jettips, four brushes and a storage cover, with a suggested list of $77.49.
- North American Philips introduced an expanded line of Longer Life bulbs in response to consumer opinion polls, in a variety of shapes and wattages.
- Rubbermaid rolled out a host of new products in the largest exhibit booth ever featured at the housewares show. Among the new items were Heatables, a line of microwave-to-table cookware; Letter Perfect self-adhesive letters and numbers; see-through utility drawers and storage boxes; in-sink drainers; and colorful, casual dinnerware.
- Cosco unveiled a cross-marketing campaign aimed at new parents. Featured in a tie-in promotion are Cosco's model 116 and 316 child Toilette Trainers and a free attached sample of Borax, the natural mineral household cleaning aid now in the midst of a rejuvenation campaign.
- Lorus was showing new lines of clocks and watches featuring Disney characters, including a Mickey Mouse pop-up alarm clock with a suggested retail of $17.50.

Private label survey suggests tips for retailers

NEW YORK — To take a strong stance in private-label (PL) merchandise, a retailer might start by giving the shopper the opportunity to buy trial sizes of the product, heighten PL signage and show the customer just how similar in composition the PL product is to national brands.

These were three tactics to gain consumer acceptance suggested by the Private Label Manufacturers Association's (PLMA) recent Gallup survey. Sustaining shopper loyalty to PL product lines could be a little more complicated, however, based on survey findings.

More than 75% of consumers surveyed said they were moderately to strongly interested in the availability of store-brand trial sizes. Roughly the same percentage of shoppers said they decided to experiment with other PL products after being satisfied with an initial PL purchase.

One of the consumers questioned was cited as representative of many: "It's always the national brands that let you sample—never the store brands. So you don't ever really have the opportunity to compare, because you've already been conditioned by the national brands."

[illegible]

Quality of store brand items	
73%	Very important
18%	Fairly important
8%	Not important
1%	Don't know
Variety of store brand items	
60%	Very important
25%	Fairly important
15%	Not important
1%	Don't know

While pricing was a key factor when deciding whether to buy a PL product instead of a comparable national brand item—74% rated price as a very important reason why they would choose PL—when they shopped again, 80% said they would reach for a PL product only if it had met their quality expectations.

Other factors influencing the decision to buy PL included "compare-and-save" signage, nutrition/ingredient equivalency signage and the store's satisfaction guarantee.

Nearly half of those surveyed were "strongly interested" in compare-and-save signs, and more than half (54%) similarly rated the importance of nutrition/ingredient information. One of the survey respondents quoted in the PLMA report said, "If it's got the exact same stuff on the label, to me, it's ridiculous to pay more for the national brand."

Fifty-three percent also said the retailer's promise that the PL product was of good quality influenced their decision to take home PL merchandise instead of a national brand item.

Think like manufacturers

The PLMA survey indicated that to keep the customer coming back, retailers should try thinking like manufacturers, viewing all the PL products, from the variety of internal and external sources, as a single brand.

If any individual source doesn't provide a given level of quality, it could represent the weak link in the retailer's entire PL product chain. The survey suggested a shopper is likely to decide not to buy any of the retailer's PL merchandise based on one low-quality product from one bad source, even if the rest of the PL assortment is on par or above the quality of nationally advertised brands. Seventy-seven percent said satisfaction with other store brand items was a "fairly to very important" reason to try another PL line.

The way the customer views the retailer is intrinsically linked with the way he/she thinks about the PL brand. The study stated that consumer trust in the quality of the store brand merchandise is "enhanced" by stressing a quality image.

[illegible]

Compare-and-Save signage	
48%	Strong interest
33%	Moderate interest
16%	No interest
Nutrition/ingredient equivalency signage	
54%	Strong interest
30%	Moderate interest
13%	No interest
Store's guarantee of satisfaction	
53%	Strong interest
29%	Moderate interest
17%	No interest

[illegible]

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THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART TWO

FAMILY
PHARMACY

Drug stores rebuild vital health care image

From coast to coast, in small markets and large, drug chains and independents are chanting the same refrain:

Pharmacy, home health care, OTC, cosmetics, H&BA, rah-rah-rah-rah!

It doesn't quite roll off one's tongue, but the cadence is catchy to drug store retailers who are stepping in and resurrecting a health care image that many had let slip the past few years.

They were chasing general merchandise margins, generally getting beaten at it by other classes of trade and, in some cases, taking their eyes off the ball of core drug store retailing.

General merchandise disadvantage

Drug stores remain at a disadvantage when selling general merchandise, because space constraints mean limited assortments, little fashion, less opportunity to cross-merchandise and, often, less leverage than larger-scale competitors when attempting to buy at quantity discounts.

On top of that, general merchandise sales were hampered since last fall, when automakers caught rebate fever and sucked up much of the nation's disposable dollars on car sales. Consumers will continue to feel those purchases for a while because of debt costs.

> *"Much attention is paid to government [drug] enforcement efforts. . . . We felt . . . our pharmacists would like to get involved on a personal level."*
>
> **—Bob Myers**
> *vp-pharmacy, Eckerd*

That cut deeply even into the best-laid plans at Dart Drug, for instance, which has to cover extensive interest costs since selling $160 million of bonds in spring 1986. First, low home mortgage rates prompted people to refinance; then they bought cars, which led to a sales dip. That hit the chain after a drought-induced falloff in seasonal lawn and garden sales last spring.

Perry makes changes

That demonstrates the vulnerability of drug stores in general merchandise retailing. A similar lesson came home to roost at Perry, whose net earnings dropped 39% last year after an extended period of solid growth.

Perry's drug store division continued to distance itself from auto supplies and home center products. Perry is no longer building drug/auto/home center stores and in some cases has put up walls in some of the 54 such outlets, to make them side-by-side stores.

Moreover, the chain eliminated marine supplies, sporting goods, live pets and plumbing supplies from its drug store mix.

Even Fay's, which garners 20% of its volume from aggressively promoted general merchandise, has sharpened that effort by emphasizing low-cube, faster turning products.

But the earnings rebound at Fay's is more tied to operational improvements and continued strong prescription business gains. The chain filled 8.3 million scripts in fiscal 1987, compared with 7.47 million a year earlier. Its stores average 1,100 scripts per week.

Health care image

More aggressive marketing of pharmacy is commonplace, as drug chains recede to what they know best: the business of health care. They're taking advantage of high consumer regard for pharmacists, who are at once the chain's image makers and the costliest store-level employees around.

While chains pump money into marketing them—through revamped store layouts that make prescription counters more visible, redesigned consultation areas that make customers more comfortable, more prominence in advertising and the support of pharmacy computers—they are also being made more productive.

Pharmacy computer advances

Advances in pharmacy computers enable pharmacists to compete more effectively for third-party business, update constantly changing drug costs and analyze sales data. Patient-related benefits include drug interaction warnings and individual prescription histories.

Walgreens and SupeRx, both well-equipped chains, advertise the protective benefits of their pharmacy computers regularly.

Rite Aid, which has so far equipped 825 stores with Rx computers and continues to roll them out, is taking its pharmacy computer capabilities one step further. It is joining Walgreens and Thrift in mail-order pharmacy.

Dave Dalton, vp and director of professional relations, told *Drug Store News* that its Rx USA unit is equipped to keep patient profiles, alert patients to possible drug interactions and provide drug utilization reviews, "which meets cost containment concerns of third-party payers."

Despite the red tape and lower margins involved in third-party script filling, drug stores have to chase the business or lose share to competitors who do: HMOs, PPOs, combination stores and deep discount operators scratching for pieces of drug store business.

Chains are fighting back—both with subtle image-casting efforts and blatant competitive tactics.

Fighting back

Eckerd, for example, developed a program with an adolescent drug education group called PRIDE to help parents better understand the threat drug abuse poses to their children and how to deal with it. Radio public service announcements, brochures, posters and films are part of the program. In addition, Eckerd pharmacists are speaking to parents at civic meetings through-

Continued on page 133

Video booming for earlybirds

One general merchandise category that is booming at the chains which got into it early is video rentals.

Rite Aid is pushing forward with its plans to become the nation's No. 1 video rental service. The chain has already poured about $50 million into equipping 1,000 stores with 1,050 titles each, and is eying about 1,200 stores total.

Wellby in Portland, Me., Longs in California and Douglas Drug in Rhode Island remain committed to the business they entered several years ago.

Recent entry Walgreens, which began testing rentals in some stores in 1986, will add "selectively" in 1987.

For most recent entrants, however, video rentals haven't delivered because of the high investment and high risk involved in obtaining titles. By the time they got in, rental discounting grew rampant, and the rewards didn't justify the risk.

This past January, however, the entrenched Rite Aid chain raised its one-day rental rate to $1.19 from 99¢, still far below the $1.99 rates of many mom-and-pop independent video shops. Customers didn't balk, so Rite Aid succeeded in its attempt to lift prices and margins on a category that brings a shopper to the store twice for each rental.

Smaller scale: Lewis

On a smaller scale, Lewis Drugs in South Dakota is experiencing 15%-plus annual growth in video rentals. Lewis owns its inventory of 1,200 titles per store.

The chain was in the thick of the "Top Gun" fanfare last month, when the adventure film quickly shot into the sales stratosphere as the fastest-selling video ever. Lewis sold 1,200 tapes in seven days at $18.88 apiece, well below the studio's suggested retail of $26.95. It also gave away free Pepsi during the week.

President Mark Griffin said that over the next few weeks, Lewis will discount its inventory of 300 rental copies of "Top Gun" to clear them out at less than $10 retail.

Breakout of 1986 chain drug sales

Department	*Total chain drug $ volume*	*% of increase/ decrease*	*% of total sales*	*% Gross margins*	*Average turns*
Prescriptions	$8,473,944,000	10.50%	28.05	35-40	6.5
OTC/proprietaries	4,467,880,000	9.33	14.79	30-35	5.0
Toiletries	3,229,840,000	5.98	10.69	25-30	5.0
Cosmetics	1,605,117,000	8.38	5.31	35-40	2.2
Stationery	1,486,149,000	10.07	4.93	40-45	4.5
Tobacco	2,204,820,000	3.64	7.30	15-20	15.0
Candy	1,067,082,000	9.67	3.53	25-30	7.5
Housewares	2,002,672,000	2.84	6.63	35-45	3.0
Toys	689,786,000	– 1.84	2.28	35-40	4.0
Photo/video	1,294,063,000	4.75	4.28	20-25	9.0
General merchandise	1,212,111,000	[illegible]	4.01	35-45	6.0
Do-it-yourself	399,957,000	– 5.78	1.32	35-45	3.0
[illegible]	[illegible]	[illegible]	[illegible]	15-20	[illegible]
Promotional and miscellaneous	745,268,000	2.88	2.47	15-20	NA

Source: 1987 *Drug Store News* chain drug survey

Chains mobilize to compete against other trades

Continued from page 131

out the chain's 15-state market area.

Bob Myers, vp-pharmacy services at Eckerd, said: "Much attention is paid to government enforcement efforts. . . . We felt many of our pharmacists would like to get involved on a personal level."

Perry Drug developed an antialcohol abuse campaign and gave away buttons at stores, which read, "ID is no minor thing."

McKesson Corp. and the San Francisco 49ers gave $40,000 in grants to educate sixth-graders in a San Francisco school district about the realities of drug use.

The McKesson Foundation and its Valu-Rite cooperative funded the "Just Say No" handbook, distributed by the national Just Say No foundation.

Peoples, Harco and Happy Harry's are stepping up their home health care merchandising efforts.

Some Medicine Shoppe stores, which are small apothecary-type units, bring in outside physicians, who volunteer to conduct free medical screenings on a monthly basis.

And Eckerd expects to distribute two million free colon cancer screening kits over the next two years.

These outreach efforts help position drug stores as more than willing takers of consumer health care dollars. They become active participants in the health and welfare of the markets they serve.

Newer retail forms

Meantime, drug chains are developing strategies to compete head-on against newer retail forms.

Rite Aid, for example, locates its Drug Palace deep discount stores against other deep discounters in a market. About a dozen of its 187 recently acquired stores in Florida will be Drug Palaces. The defensive approach protects its conventional stores and diminishes the impact of a competing deep discounter.

In Delaware, Happy Harry's competes against sharp-pricer Pathmark, Acme, Eckerd and Rite Aid and claims to have the highest drug share by outstoring the others.

Besides positioning itself as "Delaware's own" hometown favorite, the 19-store chain relies heavily on its ability "to generally be first in the market with new products," said vp-merchandising Pat Triboletti.

> *"We're beating them [larger chains] on the shelves because we're smaller. . . . We can have new products on our shelves within three to four days."*
>
> **—Pat Triboletti**
> *vp-merchandising,*
> *Happy Harry's*

"We're beating them on the shelves because we're smaller, we can decide quicker and get in and out of products faster. Even if we get delivery the same time as our competitors, we can have new products on our shelves within three to four days," Triboletti said.

"We don't have a choice but to give new items reasonably good shelf location because customers look for them and vendor advertising is usually good. More than a quarter of H&BA sales are generated by products that are less than one year old. It's more important to be first with them than, say, two years ago, because of increased competition," Triboletti said.

Commitment to pharmacy

In the Washington, D.C., market, however, Giant Foods and Safeway show a strong commitment to pharmacy. Prescription counters are in more than half their stores and will be placed in new and remodeled stores where leases don't restrict them. They are cutting into drug store H&BA sales as well because they have expanded assortments to meet the convenience needs of shoppers.

The three major drug chains in this market—Peoples, Gray Drug Fair and Dart—are each contending with internal problems and changes and haven't been able to stem inroads by the supermarkets.

The most visible attempt to raise share and customer loyalty was the image remake campaign by Dart. From mid-November through the end of January, Dart aired 30-second institutional spots 20 times a day, seven days a week over five television stations covering the D.C. market. Dart also ran full-page image ads in the *Washington Post*.

Meantime, in upstate New York, where Freddy's deep discount stores and the Wegman's supermarket powerhouse set the price tone, Owl Drug Stores creates a distinctive niche with home health care selections in every store that are supported by a separate freestanding unit.

Moreover, Owl chips away at fill-in food visits by merchandising 2,000- to 3,000-sq.-ft. convenience food departments in six of its eight stores.

In Sioux Falls, S.D., Lewis Drugs competes against K mart and Target, which have pharmacies. A new mall will add 300,000 sq. ft. of retail space and extra competition soon. "We anticipate a glut of footage,' said Mark Griffin, president of the six-store chain.

He romances the hometown factor. "It's more important to people today. There's some amount of suspicion of mega-chains, particularly in rural Midwestern communities," he noted.

Griffin, whose chain captures two-thirds of its 70,000 sku's per store on scanning, said that industry efforts to tighten operations and gain efficiencies have a limited benefit: "We can get so much blood out of a rock. We have to look at our merchandise."

To create in-store excitement, he works to be the first out with new products.

Lewis also has free sampling of consumables, food preparation demos, and free makeovers with cosmeticians.

Using his market as a microcosm, he observed that major chains moving into smaller trading areas, which they wouldn't have considered even a few years ago, will find them surprisingly saturated. "This is the Great Plains, not Manhattan," he joked.

10-year sales trends

(in millions $)
(1985 base equals 100. 1986 equals 107.2)

	1977	*1978*	*1979*	*1980*	*1981*	*1982**	*1983*	*1984*	*1985*	*1986*
Rx	$2,470	$3,073	$3,476	$3,983	$4,612	$5,105	$5,927	$6,733	$7,669	$8,475
OTC/proprietaries	1,531	1,730	1,964	2,235	2,575	2,879	3,201	3,595	4,087	4,468
Toiletries	1,169	1,317	1,484	1,726	2,020	2,271	2,457	2,742	3,047	3,230
Cosmetics	515	604	708	831	976	1,107	1,205	1,352	1,481	1,605
Stationery	547	614	689	779	888	987	1,069	1,199	1,352	1,488
Tobacco	973	1,089	1,219	1,354	1,518	1,702	1,806	1,979	2,127	2,205
Candy	500	533	568	607	674	753	793	892	973	1,067
Housewares	706	806	920	1,065	1,238	1,389	1,497	1,606	1,676	2,003
Toys	335	370	408	464	533	598	632	672	701	690
Photo/video	448	511	587	680	791	891	1,001	1,114	1,235	1,294
General merchandise	588	673	771	[illegible]	1,035	1,146	1,227	1,337	1,416	1,212
Do-it-yourself	191	205	237	275	319	356	396	420	425	400
Grocery and liquor	467	549	645	780	934	1,060	1,123	1,209	1,280	1,335
Promotional and miscellaneous	351	366	382	478	562	579	589	657	724	745

*Calender 1982 and prior year figures retated to reflect change in definition of chains from two or more to four or more stores.
Drug Store News established calendar 1985 as base year equaling 100. Merchandise growth shown in future census issues will reflect this index.
Source: 1987 *Drug Store News* chain drug survey

Health screening program launch

ST. LOUIS — Medicare-Glaser is embarking this month on a broad-based community health screening program that involves the chain's 63 pharmacies and full-line drug stores and six hospitals here.

The Health Watch program gives people equal access to testing and information on: cancer risks, mammographies, cholesterol screenings, stress evaluations, hearing screenings for children, visual acuity, scoliosis screenings for children, osteoporosis risk profile, cardiovascular risk analysis and colorectal screening.

Tests will be given free or at nominal charges and generally do not require appointments.

People will be able to be tested during the third and fourth weeks of each month at selected Medicare-Glaser pharmacies and drug stores in the metro area. Times, locations and specific screenings will be announced through newspaper ads, in-store signage and fliers.

Harlan Steinbaum, president and chairman of Medicare-Glaser, said the program is "a viable alternative to mobile screenings." He called it "the first and only community outreach program of its kind."

In addition to this new effort, Medicare-Glaser continues to offer daily blood pressure and diabetes screening at designated locations.

Prescription drug sales soar in year of ferment

Prescription department summary

	1985	1986	% change
All drug stores			
Consumer sales ($ millions)	$19,902	$21,693	+ 9.0%
Scripts (millions)	1,557	1,554	− 0.2
Average Rx price	11.62	13.93	+20.0
Scripts/store/year	29,657	29,432	− 0.7
Stores	52,500	52,800	+ 0.5
Chain drug stores			
Consumer sales ($ millions)	7,669	8,474	+10.5%
Scripts (millions)	634	659	+ 4.0
Average Rx price	12.09	12.89	+ 7.0
Scripts/store/year	34,178	33,948	− 0.7
Stores	18,550	19,412	+ 5.0

Source: *Drug Store News* Survey

The year 1986 was one of growth for branded and generic prescription drugs, but it was also a year that both came under fire as being excessively expensive.

Some of that growth was reflected in chain drug store prescription sales, which jumped 10.5% to a record high of nearly $8.5 billion. Prescriptions accounted for 28% of total store sales, the highest among all the merchandise categories and almost double the second-highest moneymaking category, OTC Proprietaries.

It was also a year that pharmacists won some battles on the prescription front.

In Florida, pharmacists began prescribing prescription drugs from a limited formulary. While the idea has not caught on around the country as some believed it would, it did open opportunities for pharmacists that did not exist a year before.

But some pharmacists found themselves in the thick of battle against groups that were once allies: physicians, HMOs and third-party prescription programs.

Proliferation of MD dispensing

Pharmacists in some parts of the country are witnessing a proliferation of physicians dispensing prescription drugs, a condition that can have, and—depending on location—is having catastrophic effects on prescription drug business.

In addition, pharmacists saw HMO's and other third-party providers, once dependent on local pharmacies to service their customers, turn their backs on them by signing exclusive contracts with one or two major independents and drug chains. If the trend is to continue, it will undoubtedly have a profound effect on how drug stores conduct their business in the future.

But on the positive side of the business, 1986 was a good year for new drug introductions.

Pharmacists saw a surge of new prescription product introductions as the amount of branded drugs launched in 1986 jumped 20% over the previous year and a whopping 60% over 1984 product launches.

Drug launches last year clearly marked the beginning of a new era in drug development, as more than 15% of those products were for biotechnology drugs.

Among the four biotech drugs launched were two interferon drugs (manufactured by Roche and Schering), for the treatment of hairy cell leukemia; a hepatitis vaccine (Merck); and an antibody (Ortho) to block the rejection of kidney transplants.

"The approval of four [biotechnology] products in a single year signals the movement of medical biotechnology at long last from the laboratory to the treatment center—surely one of the significant events of our time," commented Gerald J. Mossinghoff, president of the Pharmaceutical Manufacturers Association.

F.D.A. approvals

The F.D.A. also approved 14 additional drugs that had not been launched by the end of 1986.

Those with projected marketing dates of the first quarter of 1987 include Enkaid, an antiarrhythmic (Bristol-Myers); Provocholine, a bronchoconstrictor/diagnostic (Roche); Recombivax HB, a biological/vaccine (Merck); Technescan-HIDA, a diagnostic (Mallinckrodt); Alfenta, a narcotic analgesic (Janssen); Azactam, an anti-infective/antibiotic (Squibb); Ocufen, an inhibitor of intraoperative miosis (Allergan); and Brevibloc, a cardiovascular/beta blocker (Dupont Critical Care).

Last year was also the best year for generic drugs as a greater number of cost-conscious third-party programs spread their tentacles into more drug stores and more brand-name drugs came off patent.

Generic drug sales soared from $800 million in the previous year to an estimated $1.2 billion.

Generic growth rate

Projections from analysts who track that industry say that the rate of growth for generics was more than twice that of the entire pharmaceutical industry and that sales could push over the $3 billion mark by the end of the century.

But both branded and generic manufacturers did not leave 1986 unscathed by critics, who said that prices in both areas were too high.

A congressional subcommittee, spearheaded by Rep. Henry Waxman, announced hearings on the coattails of last year's sharp, near-double-digit rise in the cost of prescription medicines.

According to a report released by the U.S. Departmment of Labor, Bureau of Labor Statistics, retail prescription drugs rose 9% during 1986 (with some prescription drug categories as high as 13.2%), higher than the national average of 7.7% for overall medical care in the U.S. The report showed that, entering 1987, those prices are still on the rise.

The same report revealed that not only did drug prices rise dramatically at retail, but manufacturer prescription drug prices climbed even higher at 9.8% (with some individual drug categories climbing as high as 13.3%).

'Carte blanche' for manufacturers

Some industry observers pointed to extended patent life of selected branded drugs as a result of the 1984 "Waxman/Hatch" amendments as a carte blanche for manufacturers to raise prices.

Others said that another provision of that law which allows generics to come to market sooner should equally share the blame for higher drug prices. The assumption is that branded manufacturers are raising prices on those drugs that are protected by patents.

While generics seemed to enjoy a year of unparalleled prosperity, a controversial article that appeared in the *Journal of the American Medical Association* claimed that drug stores tend to mark up generics more than brand drugs, in both percent and dollars.

According to the article's author, Bernard S. Bloom of the University of Pennsylvania, many state laws do not obligate pharmacists to pass savings along to the customer. In many instances exemplified in the article, savings when buying generics are not realized by the consumer, and in isolated examples, generics can sometimes cost more than the branded drug.

1986 U.S. retail prescription sales of top 10 products
(at acquisition cost)

Rank	Product	Company
1	Tagamet	SKF
2	Zantac	Glaxo
3	Dyazide	SKF
4	Naprosyn	Syntex
5	Tenormin	Stuart
6	Inderal	Ayerst
7	Keflex	Dista
8	Procardia	Pfizer
9	Feldene	Pfizer
10	Cardizem	Marion

Source: Pharmaceutical Data Services

PEOPLES
COCOA BUTTER

This Peoples pharmacy reflects several concurrent trends in merchandising the prescription counter: a step-down consultation area, an emphasis on generic drugs and home health care booklets.

Changes on the horizon for home health care

Home health care seems like a sure bet. Aging of the populace and the government's push to contain medical costs lead to home health care as a preferred alternative for more people.

In addition, many consumers prefer to convalesce at home. Home health care seems to be where the desires of the government and the public meet.

The prognosis for this business is good, but drug stores which have home health care departments or centers do not always find profitability high. Increasing competition and the vagaries of Medicare reimbursement have caused that.

"The average profitability in the DME [durable medical equipment] industry has been roughly cut in half in the past two years," said Michael Hamilton, president of Diversified Medical Management, a Birmingham, Ala., consulting firm.

The forces of competition and cost containment have shrunk pretax profit margins from 25% to 30% two years ago to 12% to 15% today, according to Hamilton.

With Medicare accounting for $4 billion to $5 billion or 50% to 70% of the durable medical goods market, drug stores find themselves suitors of the Medicare system.

It became clearer in 1986 that it's "more and more difficult to get paid on a predictable basis for services rendered to a Medicare beneficiary," Hamilton said.

Hamilton expects that Congress will adopt several changes in Medicare reimbursement that will affect DME dealers when it passes the budget this year.

Major changes expected

One of the major changes might be the reduction in the number of carriers which process Medicare claims under contract for the government. Hamilton said the government currently uses 53 carriers and there is a proposal to reduce that number to 10, one per region.

"That would reduce the number of interpretations and all dealers who do business across state lines would be happy to see that," he added.

Oxygen supplies account for a large proportion of DME reimbursements from Medicare. Hamilton anticipates that there may be some rules changes in that area. Not long ago, the government tightened the rules on who is eligible for oxygen services, based on blood test results. One proposal is for Medicare to reimburse only oxygen consumption, instead of equipment.

While it's impossible to tell if the changes will benefit the DME supplier, Hamilton believes that they will result in more stability.

"It will make the rules we live under more predictable and less volatile," Hamilton said.

Another development, Hamilton said, is that the government may be launching pilot projects to test the feasibility of competitive bidding for DME.

Kevin Marvelle, deputy project director for Abt Associates, which is proposing to design the pilot project for the government, said that competitive bidding for DME will be tested in six locations and will include bidding for charges, as well as method of reimbursement.

However, Hamilton believes competitive bidding for DME is "too complicated."

[illegible]

Elderly patients (chiefly with cancer, arthritis, strokes, ambulatory problems and other ailments)	30%-40%
Injured patients (chiefly with wounds, fractures, burns)	20%-30%
Postoperative patients (chiefly with surgical wounds and related problems)	15%-25%
Ostomates	10%-20%
Chronic disease patients (nonelderly, with diseases such as diabetes, multiple sclerosis, muscular dystrophy and cerebral palsy)	5%-15%
Sports/athletic participants	5%-10%
Other customers	5%-10%

Special attention, information key

The home health care customer mix "varies widely," but "persons over 65 predominate. They typically account for over 35% of all medications purchased and use more home health care products than any other group," according to Johnson & Johnson's *Home Health Care Marketing Manual for Retail Pharmacies*.

Retailers can maximize home health care sales by giving these consumers "special attention and information on the full range of home health care products and services available, even if they currently patronize the pharmacy only for medications," J&J advises. "Bag stuffers, supplemented with the building of personal rapport," help establish a particular pharmacy in the customer's mind as an outlet for his home health care needs.

According to the manual, about "seven out of every 10 patients come to the pharmacy on the basis of referrals from health care practitioners, chiefly nursing services and other home health care agencies, hospital personnel and physicians, surgeons and therapists. The other 30% come as a result of advertising and referrals from other customers."

A drug store can increase the number of home health care customers it attracts through customer referrals in several ways, including having professionally trained sales personnel. These trained salespeople will result in "well satisfied present customers," who are more likely to refer others, the manual says.

Freestanding units cater to patients

Chains such as the Hook division of Hook SupeRx, People and Perry Drug have led the way in developing freestanding stores—"home health care centers" designed to offer one-stop shopping convenience to customers, including hospitals and HMOs. Harco and Begley are leaders among the smaller chains, with strings of freestanding units catering to most home care needs.

Perry acquired another freestanding home health care center in 1986, bringing its total to nine freestanding and home health care centers within Perry drug stores, according to Dennis Belevender, director of purchasing for Perry Comfort Care.

Perry has one joint venture with a hospital and affiliations with a few nursing associations.

"Even a hospital with 400 to 500 beds discharges 10 to 15 people per day," Belevender said.

He noted that discharge planners in hospitals have a lot of influence on where patients purchase their equipment. He also noted that nursing groups which care for patients in the home are "very price conscious" and tend to shop for the best price.

The solution Perry has found to be Medicare problem is to require a complete and detailed letter from the physician to ensure reimbursement. A scribbled note on a prescription form is not enough, Belevender said.

In many ways, home health care departments within drug stores have the advantage over freestanding centers, according to Belevender, because "you can acquire walk-in business." Customers of freestanding centers only shop there with a purpose. Belevender says Perry's strategy on freestanding centers is to acquire established businesses rather than start from scratch.

"A lot of small companies are looking to get out from under," said Belevender.

The drug store environment is also ideal for the smaller pick-up items such as incontinence products and post-surgical wound care supplies, which have proven to be good sellers for drug stores in the last year.

Ostomy products produce sales

Ostomy products are also a reliable line of products.

"Once you have an ostomy clientele built up, they come in every month to pick up supplies, like clockwork," Belevender said.

With patients being discharged "quicker and sicker" from hospitals, the home health care business is showing an increasing "awareness and interest in providing the more complicated services such as parenteral and enteral feeding, IV and respiratory equipment," Michael Hamilton, president of Diversified Medical Management, a Birmingham, Ala., consulting firm, said.

Belevender said Perry is carrying increasingly sophisticated items, such as CPMs (Continuous Passive Motion), which flex patients' muscles while bedridden, making rehabilitation much easier once the patient is able to get out of bed. The patient's legs are connected to a motor and the amount of flexion desired is set and the muscles are worked.

Another item is called an apnia monitor, which is used by mothers of infants considered at high-risk for sudden infant death syndrome.

Independent drug stores often use home health to create a market niche. One recent development is for DME suppliers to contract with state PSAOs to form a chain of independent outlets for their products.

Franchisees successful

Hamilton said independents who have been most successful with home health care are franchisees to home health care suppliers such as ConvaCare. The franchisers offer "excellent training programs" for personnel who can be critical to the success of a home health care business, Hamilton said.

"A drug store's ability to succeed in the business is related to its commitment to train personnel and to provide a high level of service to customers," said Hamilton. "If you just take the attitude that you're going to dabble in the business, you are not going to do well."

Belevender agrees that service is the linchpin to success.

"It's a service business and you'd better offer damned good service. You have to be there for the customer. If you don't make it to the customer's house to fix a wheel for two days, and that customer complains to his or her doctor, who happens to be the chief of staff at the local hospital, you can bet the doctor will make some comments at his next staff meeting," Belevender said.

Home health care may have once been a sideline that didn't need much tending, but that's no longer the case.

"It's not as profitable as it used to be," Hamilton said. "It's more difficult to get into and it's more difficult to get your market share."

Many categories contribute to OTC sales strength

Despite a year in which retailers complained of the continual erosion of OTC sales by increased nontraditional drug store competition, OTC/proprietary department sales for chain drug stores managed to show a 9.3% gain, to $4.5 million.

The OTC department remains the No. 2 sales category, representing nearly 15% of total chain store sales.

The upsurge of OTC sales came from several product categories, but it was especially fueled by perennial sales of cough and cold products, the introduction of several new ibuprofen products, an expanded base of contact lens wearers using an increased number of solutions, and an active year for condom sales spurred by the spread of sexually transmitted diseases and AIDS.

Cough/cold still reigns

According to *Drug Store News*' 1986 study of the 100 best-selling OTCs, cough and cold products took the lion's share of OTC product movement. Based on number of units, cough and cold products represented 25% of all OTC products moved through chain drug store checkouts.

As part of the overall OTC department, all sku's (tablets, capsules, liquids and lozenges) of cough and cold products accounted for about 15% of OTC department sales and had a total increase of approximately 14% over the year before.

Playing a major role in cough and cold product sales were numerous Rx-to-OTC switched products. According to the study, almost half (44%) of the products in that category were switched products.

Ibuprofen a factor

Another product area that contributed to growing OTC sales were the analgesics. Overall, analgesic sales enjoyed a healthy increase in sales over last year. Most retailers believe that the 16% increase was brought on by the increased number of new ibuprofen products brought to market in 1986.

Although Tylenol products continued to hold a commanding niche in 1986, with more than half (53%) of those products in the top 100 OTC listing, the introduction of several new ibuprofen products is expected to steal some of the nation's $1.6 billion analgesic product pie. Drug stores grab nearly half a billion dollars of that.

Already showing signs of suffering from the success of the ibuprofens were aspirin-containing analgesics such as Bayer Aspirin.

Bayer aspirin 100s, the 1985 OTC analgesic leader, dropped to second place last year within that category and to 10th position in the top 100 OTC listing (based on number of units). A similar fate befell Anacin tablets 100s.

In 1985, Anacin tablets 100s were the second-best seller within the analgesic category, but slipped to seventh place among analgesics and settled in as the 21st best-selling OTC in the top 100 list (based on unit sales).

It is also believed that ibuprofen will fill a gap left by several analgesic manufacturers in treating menstrual pain. According to some analysts, the menstrual pain product market, currently about $175 million in yearly sales, is expected to continue its 10% annual growth rate. Several manufacturers have either brought out products with menstrual pain indications or plan to do so in the near future. It is expected that these products will further erode aspirin and Tylenol sales.

Eye care a sure bet

One OTC category that is a sure bet to continue growing is eye care, particularly contact lens solutions.

As new lenses are brought to market, new solutions will be developed to handle their care. Last year alone, sales in this category topped $200 million, a whopping 16% gain over the year before.

Condom sales strong

But one area of growth that took most retailers by surprise toward the end of 1986 was family planning. Unfortunately, while sales for family

Continued on page 142

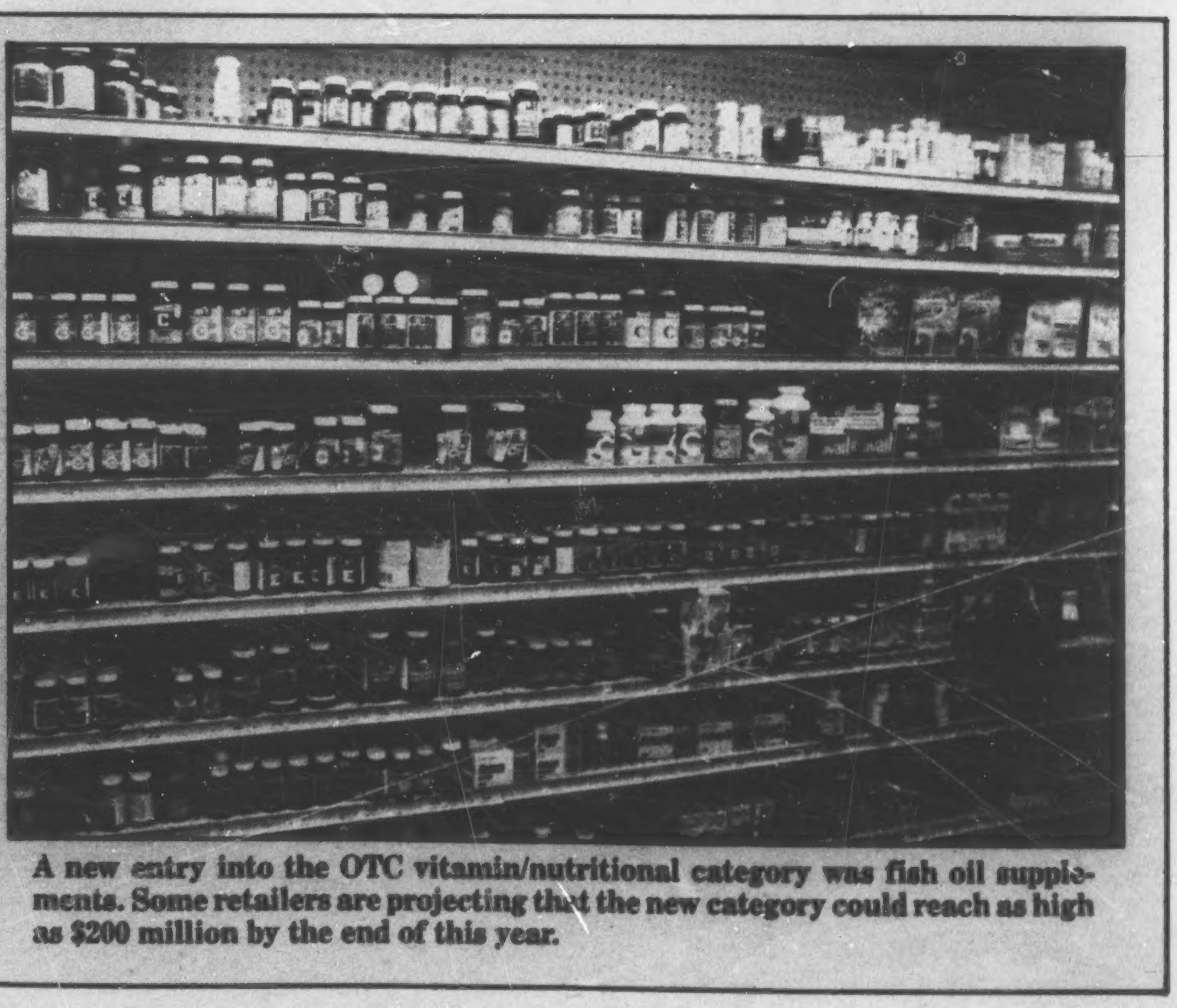
1986 Proprietaries department productivity

Category	Total sales (add 000)	% of increase	% of sales
Analgesics	$ 483,973	16.33%	10.83%
Vitamins/nutritionals	449,088	8.35	10.05
Cough/cold (Tabs/caps/loz.)	417,152	14.67	9.34
Cough/cold (Liquids)	279,225	13.88	6.25
Antacids	251,498	4.31	5.63
Laxatives	273,538	4.36	6.12
Diet aids	109,708	6.89	2.46
Eye care/lens care	209,575	16.49	4.69
Asthma inhalants/tabs/etc.	14,901	1.28	0.33
First aid products	250,689	6.32	5.61
Warts & Corns	29,409	0.74	0.66
Feminine hygiene	224,422	6.99	5.02
Family planning	200,542	13.54	4.49
Acne preparations	72,228	2.95	1.62
Sleeping aids	31,197	1.69	0.70
Antidiarrheal/antinausea	74,593	4.29	1.67
Dental care	448,018	10.44	10.03
Baby needs	368,430	4.81	8.25
Footcare products	172,504	3.78	3.86
Home health care	69,465	8.41	1.55
Miscellaneous	37,057	5.32	0.81
Total	$4,467,880		100%

1986 OTC/proprietaries department highlights

Chain drug OTC/proprietaries sales	$4,467,880,000
1986 percentage increase	9.33%
Percentage of total chain drug sales	14.79%
Typical gross margins	30%-35%
Industry profit yield from OTC/proprietaries last year	$1,340,364,000 to $1,563,758,000
Average annual department turns	5.0

OTC proprietaries continued to do well in chain drug stores, despite a continuing erosion of sales. OTC sales last year increased 9.3% from the previous year, to an all-time high of $4.5 billion.



A new entry into the OTC vitamin/nutritional category was fish oil supplements. Some retailers are projecting that the new category could reach as high as $200 million by the end of this year.

Many categories contribute to OTC sales gain

Continued from page 141

planning products such as contraceptive gels made no headlines, sales for condoms did, as America came to grips with spreading sexually transmitted diseases (STDs) and the deadly disease, AIDS.

The growth in sales of family planning products is reflected by a nearly 14% increase over the year before—when public information about STDs and AIDS was not as widespread.

According to sources at Planned Parenthood, more than $1 billion is spent on birth control in the United States yearly. But not all family planning sales are for contraception. Many buy products in this section for the prevention of sexually transmitted diseases.

There were 1.8 million new cases of gonorrhea, 500,000 new cases of genital herpes and 90,000 new cases of syphilis in the nation in 1985. In addition, more than three million new cases of chlamydia, a bacterial infection that can cause infertility, were reported.

Family planning sales at the chains hit an all-time high last year, reaching more than $200 million, with much of that being credited to the sale of condoms.

The remarkable comeback of condoms was also evident at headquarters buying levels.

"The condom market is going through the ceiling. It was one of our high growth categories last year," commented one buyer for a large drug chain.

Industry leaders predict that by the end of this year alone, condom sales will reach as high as $250 million, with many predicting it will surpass that figure.

Growth for condoms is expected to be 20% this year, as the demand for a safe, simple means of preventing AIDS will be uppermost in consumers' minds.

Although not reflected in this year's annual report figures, the vitamins-/nutritional category also received an unexpected boost toward the end of 1986 when a report published in the *New England Journal of Medicine* suggested that certain fish oils could lower cholesterol.

Soon after the report was published, the floodgates opened and out came scores of fish oil supplement products. First out of the gate, and ahead of the big rush, was R. P. Scherer Corp., which had been producing MaxEPA fish oil supplements for private labelers since 1982. In addition, Squibb and Warner-Lambert launched all-out campaigns for their versions, Protrochol and Promega, respectively. It is estimated that the print campaigns helped boost 1986 sales of fish oil supplements to $30 million.

Projections for 1987 range from $100 million to $200 million, depending on the source. According to a source at Squibb, the supplements could do better than calcium and fiber supplements, two very hot categories.

Top 10 OTC products ranked

	Unit sales	Dollar sales	Gross profit dollars
1	Fleet Enema regular	Tylenol extra-strength caps, 50s	Os-Cal 500mg tablets, 60s
2	Chap Stick	B&L Sensitive Eyes Saline, 12 oz.	Centrum tabs, 100+30
3	B&L Sensitive Eyes saline, 12 oz.	Nyquil, 6 oz.	Mylanta liquid, 12 oz.
4	Nyquil, 6 oz.	Tylenol extra-strength tabs, 60s	Tylenol extra-strength caplets, 50s
6	Robitussin DM, 4 oz.	Actifed tabs, 24s	Os-Cal 250mg tablets, 100s
7	Tylenol extra-strength caps, 50s	Nyquil, 10 oz.	B&L Sensitive Eyes Saline, 12 oz.
8	Actifed tabs, 12s	Robitussin DM, 4 oz.	Slim Fast powder choc., 16 oz.
9	Mylanta liquid, 12 oz.	Slim Fast powder choc., 16 oz.	Actifed tabs, 24s
10	Bayer aspirin, 100s	Advil tabs, 50s	Nyquil, 10 oz.

EXTRA-STRENGTH
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MAXIMUM STRENGTH
ANACIN

Although Tylenol and Anacin tablets continued to hold a niche in the OTC analgesics category, retailers fear that their sales will be cut because of newly introduced ibuprofen products.

Commerce Dept.: OTC market to grow

WASHINGTON — The over-the-counter drug market will expand by 4.5% in 1987 to reach $7.1 billion, and government forecasters anticipate a continued growth of about 4% a year until at least 1991.

Much of this year's projected growth in OTC drugs will come from mergers of major proprietary pharmaceuticals corporations and the increased availability of home diagnostic test kits, according to the Commerce Department's newly released *Industrial Outlook*.

Similarly, long-term expansion forecasts for the nonprescription drug market are being backed up by government predictions that more "exciting new products" will make the switch from prescription to nonprescription status.

"Other reasons for the growth in such sales are the costs of professional medical care, greater public knowledge and the availability of nonprescription drugs. Self-medication is fast becoming a characteristic of a better-educated society," the Commerce Department economists said.

Vitamins comeback

Contributing to the expansion in the non-Rx market will be the rebirth in popularity of vitamins and minerals. The vitamin market has grown "very little" for the past several years, according to the government researchers, who predict that over the next five years sales of both products will increase.

"The reason for this optimism is the increase in both the very young and the elderly population groups, the greatest consumers of vitamins and minerals. Also, increasingly strong evidence suggests that vitamins A and E and beta-carotene may halt the activity of free radicals, molecules that can lead to cancer," they said.

2.2% rise forecast

During 1987, the Commerce Department forecasters call for a 2.2% (not including inflation) rise in the value of manufacturer product shipments of all "pharmaceutical preparations" (including OTC drugs) from a total estimated value of $24.6 billion in 1986.

Although pharmaceutical preparations shipments are expected to grow "at an annual rate of about 3% through 1991 [after adjusting for price change]," this rate is not as large as previously anticipated. One reason for this, according to the government economists, is that "fewer unique products are expected to reach the market."

The newly released statistics also show that the average price of drugs and pharmaceuticals for 1986 rose only 4.3%, compared with average annual price increases of 5.5% since 1982.

Profit margin erosion

Furthermore, government researchers indicate that, similar to previous years, not all of the higher drug prices are going toward manufacturer profits. In 1986, the industry's average aftertax profit as a percentage of sales was 12.3%, which is about 5% lower than in previous years.

"Although measures taken by the industry to maintain profitability in the face of increasing numbers of generic products and the higher cost of developing new chemical entities have helped, there has been some erosion of profit margins," according to the report.

Much of the price hikes is needed to fund research and development, which last year cost the industry an estimated $4.7 billion—up by 14.5% over 1985 levels.

Pooling resources

However, R&D costs may not take such a chunk out of manufacturers' pockets in the future, according to the Commerce Department report, which predicts that during the next five years, more pharmaceutical companies will start to pool their resources and costs and collaborate on the development of new products.

In addition, "One source of savings could be international acceptance of a single test portfolio concerning clinicals and other studies required for approval of new drugs in major industrial countries," they said.

Hair and skin care items led toiletries' '86 growth

1986 Toiletries department productivity

Category	Total sales (add 000)	% of increase	% of sales
[illegible]	[illegible]	[illegible]	[illegible]
Deodorants	370,035	4.52	11.46
[illegible]	[illegible]	[illegible]	[illegible]
Shampoos	344,021	3.83	10.65
[illegible]	[illegible]	[illegible]	[illegible]
Rinses and conditioners	215,511	4.94	6.67
[illegible]	[illegible]	[illegible]	[illegible]
Ethnic (incl. black cosmetics)	227,581	13.36	7.05
[illegible]	[illegible]	[illegible]	[illegible]
Razors/incl. disp. blade	147,414	2.27	4.56
[illegible]	[illegible]	[illegible]	[illegible]
Suntan/sunburn	152,547	4.32	4.72
[illegible]	[illegible]	[illegible]	[illegible]
Mousse/styling gels	58,620	8.76	1.82
[illegible]	[illegible]	[illegible]	[illegible]
Depilatories	10,726	4.44	0.33
[illegible]	[illegible]	[illegible]	[illegible]
Total	$3,229,640		100.00%

The sales of toiletries like hair, skin and body care products rose 6% in chain drug stores in 1986 to a total of $3.23 billion.

The growth areas were styling aids, particularly gels and other holding products, up 9% to $58.6 million; hair sprays, up 12.5% to $128.3 million; men's toiletries, up 9% to $362.9 million; and shaving preps up 15% to $51.2 million.

Hand and facial skin creams also did rather well in 1986, climbing 7% to $397.1 million, but body creams and lotions were relatively flat.

Depilatories, up 4.4% to $10.7 million, also did well off a small base, and so did deodorants, up 4.5% to $370 million.

Convenience and sharper prices

In general, most drug chain executives felt that some of their gains in the category were coming from an increased marketing emphasis on their "traditional drug strengths"—convenience of location, ease of shopping and variety.

Some also felt that their pricing on some of the lines like hair care and ethnic had become more competitive in 1986, putting them in a better position to compete with the Krogers and the Giants and the K marts and Wal-Marts of the world.

Some product categories, such as styling aids and hair sprays, were helped along by consumer fashion trends, such as the emphasis today on styling and texturing the hair, as well as grooming it.

Retailers also say that, until recently, consumers weren't aware that products like mousses and gels could be used to give body and texture to the hair, as well as to control it.

Many retailers and manufacturers are also reporting an influx of much younger users into such key segments as hair color and hair sprays.

The traditional hair color and hair spray user used to be 35 and over, but today because of the new special-effect color cosmetic brands like Pazazz, Roux and Colorific and the new directional styling sprays like the Alberto Culver nonaerosols, consumers are coming into the category at a much earlier time in their lives.

Retailers say the credit for that has to go to the marketing departments of companies like Clairol and Revlon. One source says they have successfully "niche-marketed" products like Pazazz and Roux Fanciful as "fashion accessories," rather than color enhancers or products designed to conceal gray.

The younger users, both male and female, are also driving the sales of many new lines like L'Oreal's Studio Line, S. C. Johnsons L'Envie and the various line extensions of Aqua Net from Faberge.

Men are also becoming a much more faithful and reliable hair grooming shopper. Retailers say Alberto Culver's advertising for its Consort line of men's grooming aids has been tremendously successful in convincing men that they should buy mousse, sprays and other styling aids designed specifically with their needs in mind.

"Before, most men just used whatever their wives, girlfriends or mothers brought home," said one buyer. "Now we're seeing more of an inclination for them to want to have their own brands."

Hand and facial skin creams continued strong in 1986, but body cream sales were flat. Buyers speculate that women are tending to use their hand creams as "all-over body lotions."

Oil of Olay continues to be the market leader in facial creams, but buyers say that the more general usage creams and lotions like Bristol-Myers' Keri, S.C. Johnson's Curel and Soft Sense, Chesebrough-Pond's lotion and Helene Curtis's Suave also are selling well.

Some buyers also think that women may be buying and using sun care products with extra high spf's as everyday facial skin lotions.

Many of the sun care manufacturers are now claiming that their higher spf brands will help prevent premature aging and wrinkling, as well as protect the skin from burning.

Buyers say that, with the American market as health conscious as it is today, women, and maybe some men, may be using the higher-spf brands as foundation creams or moisturizers that can help them age more gracefully.

Scented deodorants growth

In the deodorant category, sales of scented brands are far outpacing sales of the unscented brands.

Salomon Brothers in New York, which tracks cosmetic and toiletry sales trends through a variety of outlets, says that their most recent data showed that special scent brands were growing at a 31% rate on a year-to-date basis, while the sales of the unscented brands were basically flat.

Stick deodorants were also growing faster in sales than their roll-on and aerosol counterparts. Salomon estimates market share for stick deodorants now at about 42.5% of the total market, up 9% from a year ago.

Mennen, Procter & Gamble's Secret and Sure, Gillette's Right Guard and Dry Idea, Bristol-Myers' Ban and Ban Basic, Arrid and Faberge's Brut are all named as strong sellers.

In shampoos, sales are still flat overall, but drug chains seem to have generated some reasonable dollar growth in 1986. Some buyers say that is because there has been more display activity and additional space allocations for the premium-priced segment of the market: the salon-style brands and the premium brands like Vidal Sassoon, Pantene and L'Envie.

Some retailers also say their sales have been helped by giving more space to diverted salon brands like Nexxus and Sebastian.

Ethnic sales off

The ethnic category was also relatively flat in 1986. Basically, retailers think this segment may be at maturity with most of its future growth coming from market share gains by the leading brands.

Most retailers say they don't expect another major surge in this segment until some new fashion look emerges and takes the country by storm as the curl style did a few years ago.

"When the curl kits and the curl maintenance products were hot," said one buyer, "we used to see sales in this category up 30% a year and better, but today, straighter hair is popular and people aren't buying all the accessory products they once needed to maintain the curly look.

"The growth now is coming from styling aids and grooming products like the oil sheens and the hair moisturizers. The relaxer kit sales are also up but not enough to offset the flatness in the category as a whole."

1986 Toiletries department highlights

Chain drug toiletries sales	$3,229,640,000
[illegible]	[illegible]
Percentage of total chain drug sales	10.69%
[illegible]	[illegible]
Industry profit yield from toiletries last year	$807,410,000 to $968,892,000
Average annual department turns	5.0

Despite recent low growth rate in blades, chains such as Rite Aid give the category high visibility for impulse and integrate private label to improve margins.

Drug stores remain major outlet for ethnic sales

For the first time in many years, the ethnic product category did not have a strong overall growth year in retail drug stores.

In all mass market retail stores, excluding beauty salons and other nontraditional retail outlets where ethnic hair care products are sold, the total hair care segment was down 2% to $285 million in 1986, according to A. C. Nielsen marketing research.

Sales of ethnic hair care products in drug stores alone, says Nielsen, were also down 2% to $175 million.

Most industry sources estimate that hair care accounts for about 85% of all ethnic product sales, while segments like cosmetics, hosiery and skin care account for the rest.

Drug stores continued to remain the dominant outlet for generating retail sales of ethnic products, however. Their share of ethnic hair care category sales, as measured by A. C. Nielsen, remained stable in 1986 at 61%.

Mass merchandise stores, like K mart and Wal-Mart, which generate about 16% of all mass ethnic product hair care sales, also saw sales decrease by 5% to $44 million, according to Nielsen research.

Food stores, which generated 23% of all mass ethnic hair care sales in 1986, experienced a sales decline of 3% to $66 million.

Chain drug stores captured about 88% of all retail drug store ethnic hair care sales in 1986, Nielsen estimates.

Sales of ethnic hair products in chain drug stores, however, were also flat on average in 1986, totaling about $175 million just as they did in 1985.

Drug Store News is estimating that total sales of ethnic products in chain drug stores was up about 13% in 1986 to about $227.6 million. Most of the growth was coming from the expansion of ethnic cosmetic lines, ethnic hosiery lines and ethnic skin care lines like the Ambi brand, which is made by Kiwi in Pennsylvania.

Some of the growth is also due to the addition of high-turning products like gels, oil sheens, conditioning products and relaxer kits to drug store shelves, as well as to the elimination of some of the slower-turning sku's like the curl kits.

Why ethnic hair care sales are flat

There are several reasons for the modest growth in ethnic hair care sales in 1986.

Many black consumers today are favoring shorter hair styles which don't need as many maintenance products as styles associated with the curly look which hit its peak of popularity several years ago.

Also, no fashion change as dramatic as the curly look has hit the ethnic category in recent years, and the sales of curl kits themselves are either stable or declining rapidly, depending on which section of the country is being reported.

Some retailers say their sales of curl kits are just flat, while others are recording sales declines as dramatic as 10% to 20%.

Black women have backed away from the look because the trend today is to go with a more relaxed hair style that will permit a highly versatile range of styling options.

The woman with a curl basically has one look that takes about six months to grow out of her hair. The growing out process is also awkward and women are complaining that they can't "do anything with their hair" during the process.

Relaxed hair is more versatile

However, the relaxed look is more flexible, and women who use this style can vary their looks much more easily.

Relaxer sales, sources are estimating, are up anywhere from 10% to 15% throughout the nation.

The sales of hair presser-related accessory products like pressing oils are also up as retailers say more women are resorting to pressing their hair to help them through the awkward stages of the curl grow-out.

Men, too, have backed away from the curl look, and their rejection of this style has had an even more negative effect on the category.

Men are not just returning to more relaxed hair. They are, in many cases, virtually retreating to a no-hair or a very short hair look, particularly among the very young, style-conscious users.

The result is that men with very short hair don't need to buy a lot of maintenance products. As one source puts it, "A $3 jar of pomade will do them very well."

The result is that men who used to spend about $35 a month on hair maintenance products are now spending about $1 a month to achieve the look they want. A jar of pomade, on today's market, sells for about $3 and lasts for about three months.

Growth segments

However, there are some bright spots in the category, and retailers are finding them. More space is being given to the major brands, which through increased consumer advertising, are starting to gain larger shares of the national market.

Brands like Dark 'n Lovely, S Curl, Donnie's, Care Free, Posner and Sof-N-Free are gaining share from the smaller regional brands, and retailers who are spotting the trends through their sales history movement reports are adjusting their sales space and their planograms accordingly.

Retailers are also refining their advertising programs so that their traffic building ads only feature the high-turning, high-usage product categories like relaxer kits, oil sheen moisturizers and styling aids.

There is also a growing trend to putting ethnic care departments in stores that have transient black consumers as well as neighborhood black consumers.

Retailers say they are no longer putting ethnic departments in stores that have neighborhood populations of 30% blacks or more, but they are also putting these departments in stores near places where blacks work or where they travel to get between work and home.

The sections are not growing in size as they were last year, but retailers are doing a more skillful job of paring back slow-turning sku's in favor of the more productive brands.

Pricing strategies

Pricing is also getting more competitive in the category in an attempt to prevent the food chains and the mass merchandise chains like Wal-Mart from stealing a greater share of the business.

Retailers say that profits in the line are still good, however, since the best-selling brands turn much faster than their counterpart brands in the general market H&BA sections.

In breaking the category down into its component parts, the growth areas in hair care seem to be in styling, conditioning, relaxing and coloring products and there is a major demand for "lite" conditioning or styling products.

The black consumer, like the white consumer, is looking for styling and conditioning aids that can add body and sheen to the hair without weighing it down or making it oily or greasy.

Heavy oils on black hair also can be a medical problem, since they can clog pores and cause the hair to become even drier and more brittle.

In color, women seem to be getting a little more daring in their willingness to try coloring products, as long as the shades are not too brash or the proposed change in looks too dramatic.

Some manufacturers are reporting sales increases as high as 45% and more on their coloring lines, but some distributors are also reporting a slowdown in the sales of Color Play and Color Accents, two color-enhancer lines launched last year.

The South seems to be the slowest market for color, while the Northeast and the West Coast seem stronger.

Natural products becoming popular

Natural products like the All Ways Natural line are gaining distribution in retail drug stores, and retailers say their sales are growing. Part of the demand seems to be coming from articles in black fashion magazines like *Ebony* and *Essence* which talk about the benefits of natural products, and part of it seems to be coming through the distribution of free trial samples which is sparking demand for the natural brands in chains like Walgreens and SupeRx.

Chains are not advertising ethnic products more than they have in the past, but they are advertising them in more innovative ways. Some are using just direct mail rather than circulars, so they can better target the shoppers in the ethnic neighborhoods where their better ethnic stores are located.

Others, like Walgreens, which has ethnic departments in all their stores, are advertising two or three ethnic brands every circular. The result is that shoppers tend to think of ethnic brands as "normal" parts of the chain's mix, and they tend to shop those stores more often for their everyday needs.

Manufacturers are also doing more to make the brands in their lines more familiar to the consumer.

Consumer advertising is growing

Just about all the major manufacturers advertise several times a year in the major fashion magazines like *Essence* and *Ebony.* Many also do radio and cable advertising, as well as some spot television.

Outdoor billboard advertising is still very popular with black companies, but there is also a growing trend to emulate the major general-market beauty care companies by staging consumer promotions like sweepstakes and giveaways.

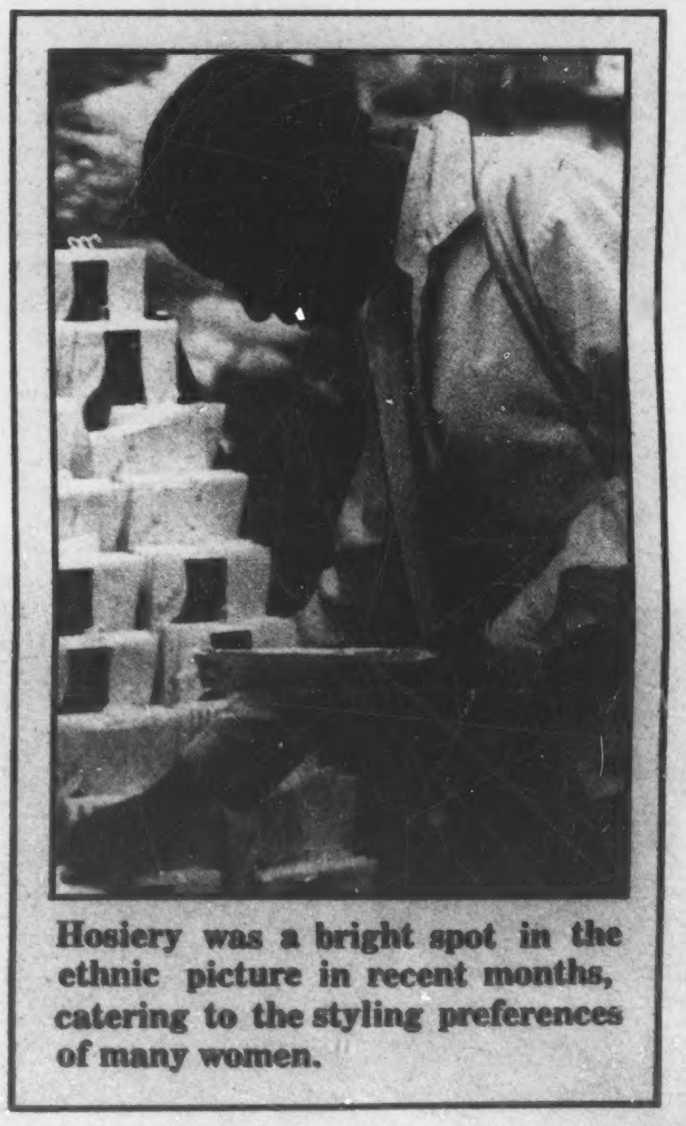
Pro Line, for example, sponsors a Family Reunion Sweepstakes for the key Black History Month sales promotion in February, and Johnson Products is continuing its Model Search promotion, which is now in its fifth year.

Worlds of Curls, M&M, Soft Sheen, Posner and others have other types of consumer promotions planned for throughout the year.

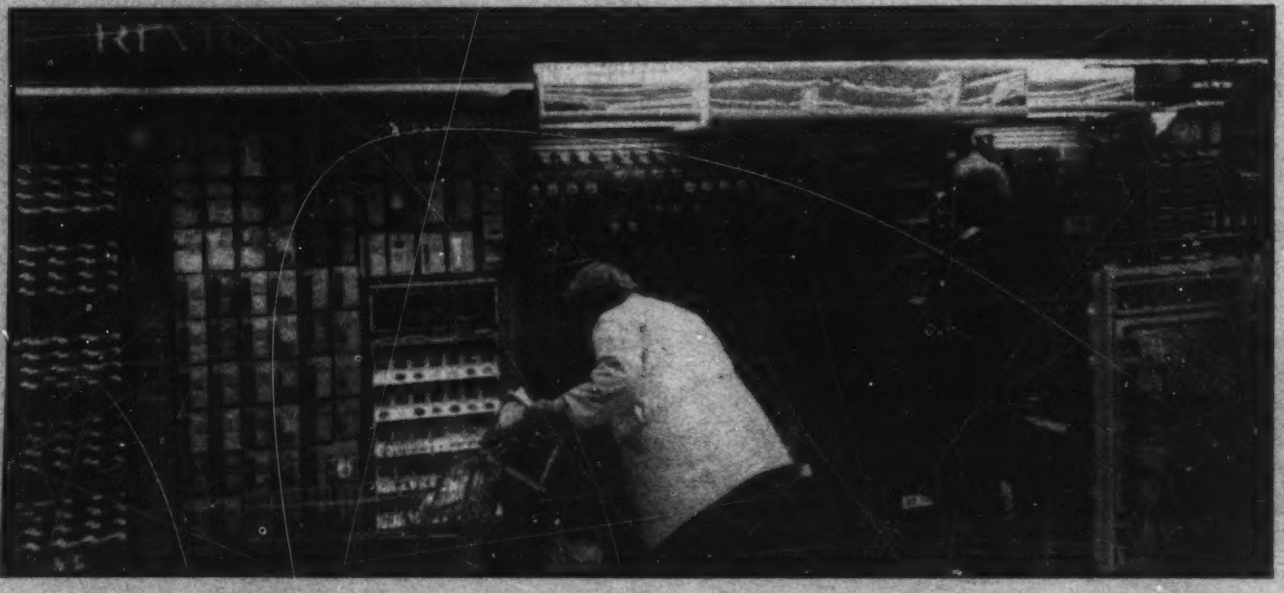
Ethnic hair preps: Annual dollar sales trends
(in millions of dollars)

	Drug stores		Food stores		Mass merch stores		Total	
Year	$ sales	% change	$ sales	% change	$ sales	% change	$ sales	% change
1982	$119	24%	$45	18%	$38	46%	$202	22%
1983	138	16	57	30	43	13	238	18
1984	157	14	66	16	52	21	275	16
1985	178	13	68	1	46	− 9	291	6
1986	175	− 2	66	− 3	44	− 5	285	− 2

Source: A.C. Nielsen Marketing Research



Hosiery was a bright spot in the ethnic picture in recent months, catering to the styling preferences of many women.



Women who shop at deep discounter Maxidrug see an extensive cosmetics run in the first traffic aisle. Beauty needs are on facing gondolas, with costume jewelry racks and leather billfolds among midaisle high-impulse displays.

1986 Cosmetics department productivity

Category	Total sales (add 000)	% of increase	% of sales
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Pegged cosmetics	366,320	11.30	22.82
[illegible]	[illegible]	[illegible]	[illegible]
Bath preps	136,254	3.71	8.49
[illegible]	[illegible]	[illegible]	[illegible]
Nail polish/nail preps	156,075	16.70	9.72
[illegible]	[illegible]	[illegible]	[illegible]
Total	$1,605,117		100%

Nail products point the way in cosmetics sales

Chain drug stores reported a relatively "fair" year in cosmetics/fragrances sales in 1986.

According to *Drug Store News'* annual chain drug survey, total department sales rose 8.4% in 1986 to a total of $1.6 billion.

The most dramatic growth was recorded in the nail color and nail treatment segment of the cosmetic category.

Thanks to a surge of new product introductions combined with what seems to be a growing consumer fascination with "nail glamour," this segment surged an approximate 16.7% in 1986 to a total of $156.1 million.

Retailers took advantage of the growth in nail care by expanding space allocations for this department, as well as by advertising the most popular brands like Lee's Press-on Nails, Revlon, L'Oreal and Max Factor nail colors, and Revlon and Sally Hansen nail treatment lines in both print and television.

Nail segment shows growth

Many buyers say they expect to see this category segment stay strong for at least another six months, and some are predicting that nail treatments will soon exceed the nail extenders or press-ons in growth potential.

Buyers say the only segment of nail care that has not been selling well are the polishing pens and some of the less trendy shades in the budget and fashion-color lines.

Buyers say that nail implements is also a growing segment. "Working women have just seemed to make nails this decade's hottest-growing segment," says Bob Berman, vp-merchandising for May's Drug in Tulsa.

Because of increased consumer advertising and, in some cases, repackaging, Revlon, L'Oreal and Max Factor are also doing well in nail color sales. Some buyers, however, are reporting that the Cutex, Aziza and Hazel Bishop sales are slowing down.

Pegged cosmetics sales

Pegged cosmetics also showed some strong growth in 1986, increasing 11.3% in sales to $366.3 million. Buyers say part of the segment's success is due to the relaunch of Revlon's Natural Wonder line. Others say Maybelline's new packaging helped sales of that brand, and many retailers say they also saw a surge in budget sales like Artmatic, Emerge and Wet 'n Wild.

In make-up powders and creams, buyers say that Max Factor is selling well, but the reports on L'Oreal's Visuelle are mixed. Some say the line is very strong in their stores, while others report that sales are flattening.

Most buyers also still rate the midyear launch of Noxell's new Clarion cosmetic line a "great success," and several say that Clarion has helped spark sales in their cosmetic departments dramatically.

Depending on the chain, reviews on Almay are slightly mixed. Most buyers say the Almay line is still selling very well, but a few say they think they are seeing a slowdown in sales and Clarion may be responsible.

Buyers say their impressions at this point, however, are still "tentative." We have a gut feeling for what's happening, said several sources, but we don't have enough sales data yet to draw conclusive opinions.

In facial treatments, Oil of Olay is still the outstanding seller, but Revlon is doing well with its more upscale Moon Drops and Pro Collagen lines, and some of the middle-priced brands like Curel, Nivea and Keri lotion are also selling very well.

Good reports are also being heard about a relatively new brand called Swedish Secret and about Neutrogena's new Norwegian Formula Emulsion.

Bath preps, however, are slow, and buyers say the problem seems to be that manufacturers are not marketing their products strongly enough to bring new users into the category or to increase the frequency of use among traditional buyers.

In fragrances, unit growth overall is still relatively flat. Buyers say some of the alternative designer brands like Primo and Giorgi Girl did very well at Christmas, but the category is starting to mature and seems to be leveling off in terms of continued dramatic sales growth.

Coty's launch of Lady Stetson last year, however, did generate some excitement in this segment and buyers say the brand did very well in their stores. Vanderbilt, Jovan, Charlie, Le Jardin de Max Factor, Forever Krystle also did well in chain drug stores last year.

Men's fragrances

Men's fragrances did not do brilliantly in chain drug stores for the bulk of the year, but at Christmas, Chaps, Stetson, Pierre Cardin, Brut, Old Spice and English Leather did well, and some chains like Walgreens were very successful with Beecham's new Adidas line.

In 1986 also, drug store retailers continued with their ongoing efforts to upgrade their cosmetic and fragrance departments. Some chains like Revco and Eckerd, who are experimenting with putting their cosmetic sections closer to the front of the store to capture more impulse sales, reported dramatic sales growth.

Others like Begley and Peoples, who are training cosmeticians to handle the department, also reported good sales growth.

Even chains who are satisfied with their sales growth, however, are on record, saying they believe there is more potential in the department than anyone has ever tapped yet.

Most retailers say they think the category, which now accounts for 5.3% of all chain drug store sales, could ultimately capture at least 8% and possibly as much as 10% or even 12%.

Stores which have upgraded their departments and improved the ambiance of their sections with glossy photos and new fixtures from manufacturers like Revlon, say that sales have improved substantially.

Most retailers say, however, that the real key to unlocking the potential of the department is in the store-level sales clerks.

Training is the chain drug industry's next highest priority with cosmetics.

Once the clerks have been better educated about the products in the department, retailers say, sales growth could go as high as 15% to 20% a year.

Most chains say that one of their highest priorities then for 1987 and 1988 will be in-store training in the cosmetic department.

1986 Cosmetics department highlights

Chain drug cosmetics sales	$1,605,117,000
[illegible]	[illegible]
Percentage of total chain drug sales	5.31%
[illegible]	[illegible]
Industry profit yield from cosmetics last year	$561,791,000 to $642,047,000
[illegible]	[illegible]

Forecast: $1.3B nail sales by '92

Nail care sales, currently $875 million retail, are expected to grow to nearly $1.3 billion by 1992, according to Packaged Facts, a New York-based research company.

That would be achieved by 10% yearly growth in the next two years, followed by a 5% annual growth pace, the study said.

New product introductions and "more feminine appearance in fashions and at the workplace" prompt the optimistic forecast. David A. Weiss, president of Packaged Facts, called this a turnaround from the 1970's, when "feminism and the new role of women in the workplace created an environment that deemphasized the use of cosmetics."

Citing new product introductions as the spark to estimated 25% annual growth the past two years, Weiss said artificial nails, silk wraps, nail creams and combination hardeners/polishers created new customers and offered salon alternatives.

Another result of all the new products: Many nail polish users are more willing to try other nail-care items, and nail-care users experiment with decorative products.

"Despite the inroads made by the newest types of nail care products, the established types . . . maintain their share of market" because of crossover purchasing, Weiss added. "Apparently, once consumers start purchasing one type of nail-care product, they expand their purchasing to other types."

Fashion and home office trends hype stationery

Drug chain retailers have embraced stationery in recent years, and the department has responded with continual strong growth; 1986 was no exception.

On the heels of a 13% growth year in 1985, stationery leaped another 10.1% in 1986 to $1.49 billion at drug chains. Changes in the nation's workplace and stronger merchandising efforts are combining to propel stationery sales at drug chains.

People are working at home more, drawing business away from downtown business centers and creating opportunities for suburban and rural merchants to sell more office, filing, mailing and organizing products.

Consumers trading up

Moreover, consumers have demonstrated a willingness to trade up to better quality, higher fashion and longer lasting products. Students buying school supplies and businesspeople filling in their professional needs consider the stationery items they use to be making personal statements about themselves, just like any other fashion accessory.

To capitalize on these social trends, drug store operators are generally committing more footage in front-of-store locations to stationery. The most dramatic example is the continued wave of chains that move greeting cards from back-to-store to front and generate 20%-plus sales gains.

Indeed, greeting cards chalked up the greatest dollar sales gain in the department last year, climbing 12.1% to $519 million. That's more than one-third of total stationery volume.

Giftwrap is sharing the success of greeting cards, having climbed 7.5% to $86 million at drug chains in 1986.

Pastel and primary colors

Growth in the school supplies and home office categories has been fueled by an onslaught of better-designed and colored merchandise from vendors supplying the mass market. While it has been fairly common to see licensed characters on school supplies for years, the recent rage has been pastels and primaries on everything from pens and pencils to portfolios and theme notebooks and so on.

In addition, home office and tax time supplies such as file cabinets, hanging folders and desk accessories are coming in many colors.

Fashion means higher tickets, an upgraded store image and increased profits. The trend translated into a 14.6% school/home office gain to $416.8 million at drug chains last year.

Stationery growth has been a decidedly bright spot for retailers, who have largely been paring back general merchandise and restressing their health care images.

They have found themselves unable to compete evenly on general merchandise because space constraints limit their assortments. Drug store retailers decided, however, that stationery and greeting cards are used and replenished daily by consumers, and they could use their stores' convenient, quick in-and-out environments to best advantage here.

Year-round business

Pat Triboletti, vp-merchandising at Happy Harry's in Delaware, summed up the feeling of many drug store merchants when he said, "Stationery has transcended the general merchandise designation to become a core category. It is a 12-month-a-year business, with only a slight slackoff in June and July." He noted further that "the only time profit suffers somewhat is when competition peaks in the main three-week back-to-school season."

Retailers who have found the proliferation of stationery sku's to be a stocking and housekeeping problem have been turning to distributor service. An estimated one-third of drug chain stores use distributors who reorder and maintain racks that commonly run from 36 ft. to 72 ft.

Drug Emporium, for instance, uses a distributor in 18 Northeastern stores, where turns increased to a high annual rate of 18 since the service began.

Some drug store operators seem willing to pay distributor upcharges to eliminate maintenance headaches and be alerted to new products from more vendors quickly. That takes on added importance with stationery partly a fashion business now.

Begley is taking a slightly different approach. The 43-store chain, headquartered in Kentucky, gave a positive jolt to its year-round school and home office sales when it tripled sku's in one vendor's complete stationery program that gives a coordinated look in packaging and display.

Buyer Chuck Reeves said the chain rolled out the program in 1986 after a one-store test produced strong customer response. Planograms of 48, 60 and 72 ft. are built around a merchandising plan by Herlitz, which makes the coordinated sku's. The 72-ft. set holds far more inventory than Begley had in the same space before—440 sku's, compared to 172.

Reeves said that using one primary vendor simplifies ordering. Yet he still augments the assortment with major branded office goods.

Another home office category that might emerge is mailing supplies, including special types of envelopes, securing tape and brown wrapping paper. Osco is among chains displaying this merchandise and watching results.

To grow the core replenishment home office business, drug chains are often tailoring assortments and marketing strategies on a store-by-store basis.

For instance, Happy Harry's stores that are adjacent to office buildings stress office supplies sales with a medium- to high-grade assortments.

Page Drug in Dallas generates extra tax time sales with a 16-ft. home office planogram that is separate from its 24-ft. back-to-school section. In it, Page carries higher-priced quality assortments to meet demand in upper middle income trading areas, said buyer Steve Standifer.

Tax time sales at Page equal about 40% of August back-to-school sales.

For its part, Gray Drug Fair deliberately underprices local office supply stores to attract professional users.

1986 Stationery department productivity

Category	Total sales (add 000)	% of increase	% of sales
Cards	$ 518,761	12.08%	34.86%
School, home/office	416,759	14.56	28.01
Books and magazines	240,726	4.72	16.18
Writing instruments	99,913	7.37	6.71
Social stationery	65,726	3.28	4.42
Gift wrap	85,983	7.53	5.78
Disposables/party supplies	48,925	2.40	3.29
Art supplies	11,355	3.22	0.76
Total	$1,488,149		100.00%

1986 Stationery department highlights

Chain drug stationery sales	$1,488,149,000
1986 percentage increase	10.07%
Percentage of total chain drug sales	4.93%
Typical gross margins	40%-45%
Industry profit yield from stationery last year	$595,260,000 to $669,667,000
Average annual department turns	4.5

Sampler of stationery facts

- Americans will send almost 8 billion greeting cards this year, about 30 per person.
- When people entertain, they spend an average of $12.36 per party on paper wares.
- The average household uses five calendars per year.
- The average household buys at least one gift item of stationery, [illegible] or pens annually.
- More men and teen-agers are now involved in family greeting card purchases.
- More than one-fifth of greeting cards sold are [illegible] Christmas, Valentine's Day, Easter and Mother's Day.

Source: American Greetings

Christmas
STAMPS

Greeting cards line a frequently used traffic aisle between pharmacy and the mall side of CVS store in Chicopee, Mass. Its holiday message was complete and convenient for shoppers who could pick up stamps and boxed candy too.

Price/value cigarettes light up continued growth

Drug store retailers struggled to maintain profits and market share in their tobacco departments last year, against a backdrop of declining unit demand, continuing price hikes and product segmentation from manufacturers and an increasingly vocal antismoking lobby.

Demand for tobacco products continues to decline, with unit sales of cigarettes down another 2.1% in 1986, according to industry analyst John C. Maxwell Jr. of Furman, Selz, Mager, Dietz and Birney. Growing health concerns, social pressures, an activist Congress and expected increases in the excise tax later this year will all contribute to continued declines for the foreseeable future.

"Looking to the future, the industry is faced with an approximate 1.7% rate of decline per year . . . through 1991," Brown & Williamson Tobacco Corp. admitted in a recent market survey.

'Passive smoke outcry'

Several hot issues surrounding the tobacco market are expected to come to full boil this year. One is the growing outcry over the effects of smoking and "passive smoke" on the health of smokers and nonsmokers alike. Those concerns have drawn vocal critics of smoking into the fray, including the U.S. surgeon general and some U.S. Congressmen, who are expected to vote later this year on a new, sweeping package of health-related legislation which would ban all advertising and promotion of tobacco products including retail display. The measure is gaining ground despite concerns over freedom of speech in advertising.

Another issue roiling the outlook for the tobacco industry is the excise tax. Faced with a critical need to generate new revenues, Congress is expected to double the current excise tax on cigarettes again this year, from 16¢ to 32¢ per pack. Coupled with another projected 6% increase in cigarette prices from manufacturers this year, the higher tax is expected to cut deeper into unit sales and give another boost to the low end of the market, which has seen most of the new activity in cigarettes over the past several years.

The price/value segment of the cigarette market, in fact, has climbed to about 9% of total sales, even as the number of Americans smoking has dropped to about 55 million from 58 million in 1975. Spurred by the success of repositioned Doral, Cambridge Lights and other "branded" generic entries, manufacturers have begun flooding the low end of the market with new branded entries like Brown & Williamson's Falcon Lights, R. J. Reynolds' Magna and American Tobacco's Malibu. All are priced considerably below full-priced brands.

Maxwell predicts the price/value side of the market will remain on an uptick, even as overall demand declines. However, the proliferation of new entries on the low end of the market is adding considerably to an already crowded field and giving merchandisers additional space problems. According to Brown & Williamson, a retailer could satisfy 98.5% of its cigarette customers in 1980 by stocking 123 cigarette brands but now must feature 198 different packings to reach the same level of customer satisfaction.

Drug store merchandisers have little choice, however, but to keep up with many of the new introductions with sufficient shelf space. Some 18 to 20 new cigarette styles emerge each year as significant performers, according to the tobacco industry, and 38% of cigarette sales in 1985 were linked to brands less than 10 years old. In addition, studies by the Point of Purchase Advertising Institute (POPAI) show that cigarette smokers are intensely brand loyal and will shop elsewhere if a store doesn't stock their favorite brand.

Another big challenge in retailing cigarettes, especially by the pack, is the high level of shrink. The problem has been severe enough to cut deeply into gross margins and force most drug chains—including Walgreens, Perry, Fay's and Begley—to keep packs or cartons or both behind the checkout counter and out of reach.

Retailers have also been subject to some of the resentment expressed by many smokers over the steady price increases since 1980. Those increases have combined with higher excise taxes to raise the average price of a pack of smokes 64% since the beginning of the decade, to $1.10 last year. Thus, despite the steady decline in consumption, the cigarette industry has seen a near doubling of retail volume in the past six years, from about $17 billion in total sales in 1980 to $30.8 billion last year.

That yielded a gross profit at retail of about $6.2 billion in 1986, according to Brown & Williamson. Nevertheless, many drug merchandisers continue to regard tobacco products as low-margin income producers, and some challenge the estimated 17% gross profit margin calculated by the tobacco industry. Minimum pricing floors for cigarettes in many states, however, keep high-volume competitors like supermarkets and discounters from lowballing cigarettes and cornering the market.

With about 9.1% of the total market, drug stores remain acutely involved in cigarette retailing. As health-oriented retailers, however, they are also caught squarely in the middle of a growing battle between the tobacco industry and the antismoking campaign.

One of the most controversial aspects of the battle, in fact, is the continuing rise in the number of female smokers as manufacturers employ successful campaigns aimed at young, career-oriented women. Women now account for more than 55% of the smoking population, according to Brown & Williamson, compared with 52.2% in 1983. They have also fueled a big rise in the popularity of longer-length cigarettes, which now account for about 40% of the total market, compared with 30% in 1978.

Another continuing controversy is the rise in pricing itself. According to a recent study by Jeffrey Harris, an economist at the Massachusetts Institute of Technology, manufacturers' price hikes and higher excise taxes have led to a 15% drop in the per capita consumption of cigarettes since 1981. In addition, Harris reported, the higher prices have been enough to induce some two million people to quit smoking and have kept some 600,000 teenagers from taking up the habit.

1986 Tobacco department productivity

Category	Total sales (add 000)	% of increase	% of sales
Cigarettes	$1,483,064	3.98%	67.26%
Cigars	342,182	0.87	15.52
Lighters/smoking accessories	197,703	5.76	8.97
Tobacco/tobacco products	156,120	1.72	7.08
Pipes	25,751	1.25	1.17
Total	$2,204,820		100%

1986 Tobacco department highlights

Chain drug tobacco sales	$2,204,820,000
1986 percentage increase	3.64%
Percentage of total chain drug sales	7.30%
Typical gross margins	15%-20%
Industry profit yield from tobacco last year	$330,723,000 to $440,964,000
Average annual department turns	15.0

Generics market share

1982	0.95%
1983	2.92
1984	4.72 *
1985	5.86 *
1986	6.94 *
1991 (proj.)	12.5 *

*Includes branded cigarettes at generic prices

Source: Brown & Williamson Market Research

Male/female smokers

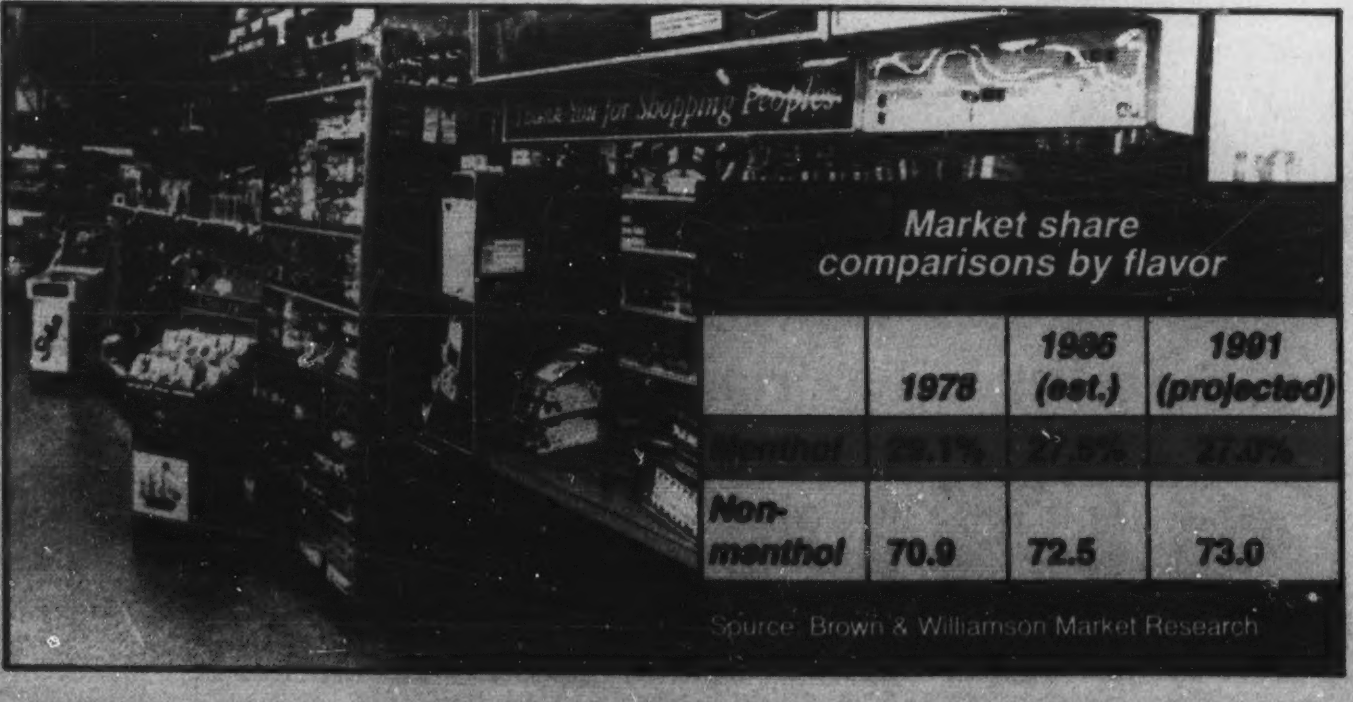
	Male	Female
1983	47.8%	52.2%
1984	47.3	52.7
1985	46.1	53.9
1986	44.7	55.3

Source: B&W Market Research

Cigarette sales by retail outlet, in units

Supermarkets	30.0%
Convenience stores	17.[illegible]
Grocery	13.4
[illegible]	[illegible]
Drug stores	9.1
[illegible]	[illegible]
Discount	6.6

Source: Brown & Williamson Market Research



Market share comparisons by flavor

	1978	1986 (est.)	1991 (projected)
Menthol	29.1%	27.5%	27.0%
Non-menthol	70.9	72.5	73.0

Source: Brown & Williamson Market Research

Cigar sales share

Drug stores	28%
Food stores	18
Mass merchant/ discount dept. stores	12
Convenience stores	10
[illegible]	10
Smoke shops	10
Other	12

Sources: U.S. Department of Agriculture, Market Facts, Cigar Association of America

1986 Candy department productivity

Category	Total sales (add 000)	% of increase	% of sales
Bagged	$ 415,176	10.89%	38.91%
Boxed	214,645	11.46	20.12
Bars	313,890	8.17	29.42
Chewing gum	105,589	6.58	9.89
Other	17,782	6.24	1.67
Total	$1,067,082		100%

1986 Candy department highlights

Chain drug candy sales	$1,067,082,000
1986 percentage increase	9.67%
Percentage of total chain drug sales	3.53%
Typical gross margins	25%-30%
Industry profit yield from candy last year	$266,771,000 to $320,125,000
Average annual department turns	7.5

Pay 'n Save gets mass impact at checkstands with a seasonal display of boxed candies. Drug chains had success integrating boxed candies into their everyday mix in 1986. The segment helped lead candy growth.

Bagged branded candies practically jump out at shoppers when displayed in angled wire bins at Rite Aid, Camp Hill, Pa. (above), and CVS, Chicopee, Mass. (below). The Rite Aid picture demonstrates the high impulse appeal of candy that retailers work to capture. The display is in the store's front quarter, opposite magazines, giving a message to curl up with a treat. At CVS, bagged candies, nuts, chips and snacks are in sequence, as if to help shoppers decide what to serve when they entertain at home. Large-size packages, rather than single-serves, escalate the average ticket and improve profitability.

Upscale, boxed candy sweetened 1986 sales

Upscale and boxed candy were the growth leaders for drug store chains in 1986, as consumer preferences leaned toward the better products. However, the longtime standbys—gum, candy bars and bagged items—registered as leading favorites at the checkstand.

Boxed candy in both seasonal and year-round selections spurred sales for several chains—and in both areas, the upscale taste and price was a factor. One drug chain suggested the move toward upscale candy reflected consumers' desire to treat themselves to something better.

Boxed sales leaders

Boxed brands such as Whitman's, Brach's and Russell Stover topped many chains' list of favorites, while others noted that Mon Cheri and Cadbury were also popular.

However, there did appear to be a price limit for consumers on better products. Valentine's Day boxed candy stayed typically under $20, for example. At Kinney Drugs, the Valentine's Day bestseller was a Russell Stover 2-lb. box at $12.

Overall, Christmas, Easter and Valentine's Day were the key holidays for candy. Chain promotions and advertisements helped push the category, but so too did launches of favored new products and vendor presell advertising to consumers.

Buyers said candy warranted year-round promotional efforts. Many ran ads as often as twice a month, helping to bring total candy sales up nearly 10% in 1986.

Impulse sellers

Candy sales were also helped by other factors, noted several chains. At Pay Less NW, buyer Bill Lorbeski said, "The presentation is a big part of your sales." Other chains agreed, adding that the proper signage is also an important element since 75% to 80% of the candy sales are impulse.

Checkstand merchandising, plus endcap and speed table displays, were the leading ways drug stores brought candy turns closer to double digits last year.

Customers continued to satisfy their sweet tooth, consuming some 3.24 billion pounds of candy in 1986, up 1.7% over the previous year, according to the National Confectioners Association (NCA).

Chocolate wins overall

Chocolate candy was the hands-down leader, according to drug stores, and this popularity was echoed at all retail segments. NCA said chocolate consumption alone accounted for 2.07 billion pounds shipped in 1986.

The price hike in candy bars initiated in early 1986 sent retail prices leaping 14% from 35¢ to 40¢. That resulted in slower candy bar sales at some chains. One top-five drug chain reported that the only way they got candy bar sales to increase was by promoting multipacks.

Elsewhere, however, other buyers said the price hike did not deter customer candy purchases. One noted that overall candy sales were flat in his region because of the South's depressed economy. Industrywide, Snickers continued to be a favorite among consumers, while Mars and Hershey bars also remained strong.

Bagged candy produced steady sales in 1986, with M&M, Heide Gummi bears, Skittles and Hershey Rolos as leading items, particularly at checkstands, buyers said.

Checkstand merchandising, plus endcap and speed table displays, were the leading ways drug stores brought candy turns closer to double digits last year.

Food and drink snap, crackle and pop sales in '86

Food, snacks and beverages all showed significant gains for drug stores in 1986, as microwave popcorn, juice-added soft drinks and wine coolers helped boost sales.

Grocery/food products posted a strong gain during a year in which several chains increased their grocery offering. Both Eckerd and Shoppers Drug Mart expanded their food selections to increase traffic and attract the customers looking for fill-in groceries.

Nuts and snack sales also crunched good numbers; microwave popcorn led the list of popular snack items—thanks particularly to single-size servings.

Popcorn and peanuts

"Our microwave popcorn in the snack section has taken off," noted Bill Lorbeski, Pay 'n Save food and beverage merchandiser. Lorbeski also said chocolate chips and walnuts did well on a seasonal basis, while peanuts were promoted year-round and given 12 ft.

In beverages, wine coolers, juice-added soft drinks and regular soft drinks worked to create a good sales gain for drug chains in 1986.

Many chains acknowledged growing sales of fruit-added drinks and the boost it has given overall soft drink sales. Buyers at SupeRx, Eckerd and Begley Drug said the fruit-added sodas supplied a 5%-plus increase for the category overall.

The juice-added drinks were promoted and used as traffic builders at several chains; Revco and Gray Drug Fair said they used in-store signage and trial-size displays to increase sales.

Soft drink 'on deal'

Although drug stores said Pepsi and Coke juice-added products lead the way in popularity, additional entries have increased the category's space allotment. However, many stores said they expect a shakeout to occur soon, with a few brands remaining strong.

Regular soft drink sales remained good but competitive, often producing low gross margins, according to several retailers. Pay 'n Save's Lorbeski said soft drinks "really have to be merchandised and sold on a deal."

Lorbeski also noted that the chain is testing a 24-ft. expansion of its soft drink area this year, which will give the stores a cooler section to add to the current promotional and endcap displays.

Liquor, wine and beer sales also climbed during the year, as drug stores continued to ride on the success of wine coolers. In fact, several chains acknowledged that if it were not for the wine coolers, overall wine sales would be flat.

New flavors expected

Because of space limitations, most chains said they carried only the top two wine cooler brands—typically Bartles and Jaymes and Seagrams. The growth of Seagrams was attributed to the national advertising campaign featuring "Moonlighting" star Bruce Willis.

The popularity of Blush and Zinfandel wines appears to have leveled off, according to drug chains, who report they anticipate that vendors will start coming in with new flavors—possibly peach.

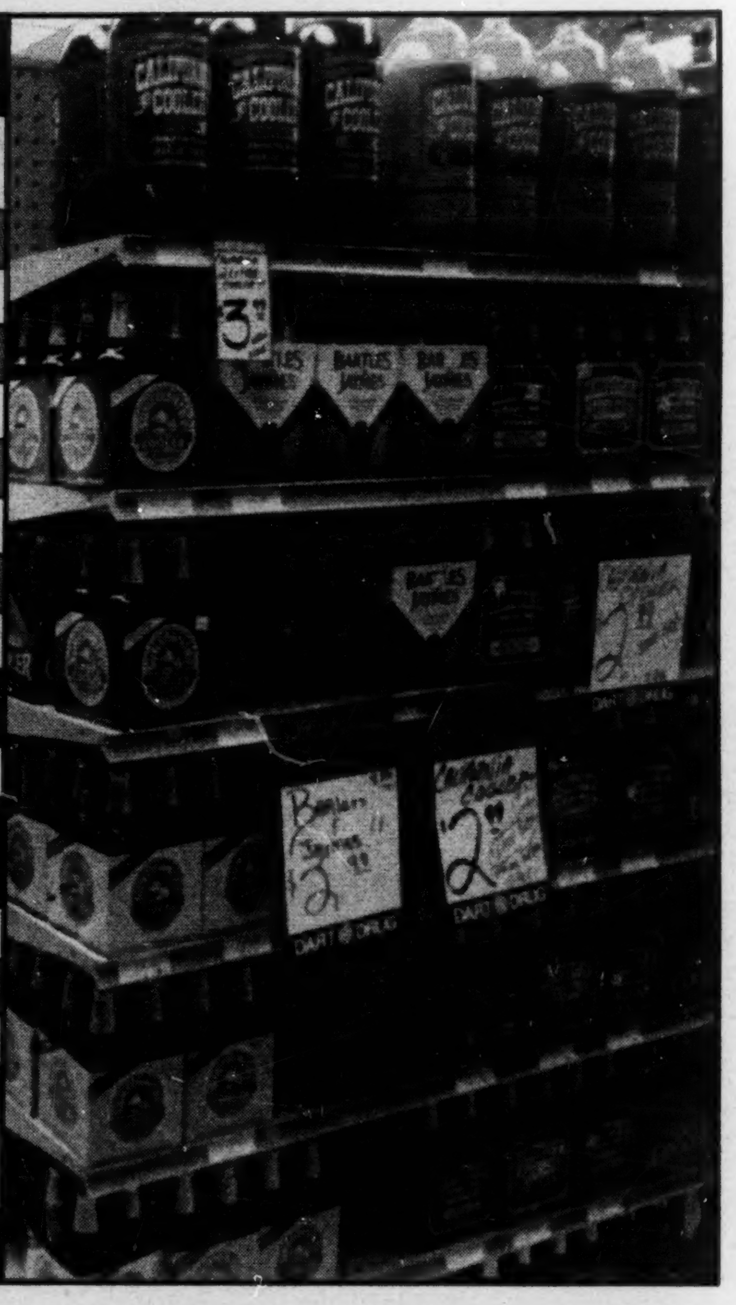
Imported beers continued to make inroads with the consumer, with drug stores reporting the popularity of Corona and Heineken. However, chains such as Pay 'n Save said they only carry beer on a promotional basis, staying away from day-to-day competition with the grocery and liquor chains.

1986 Food/liquor department productivity

Category	Total sales (add 000)	% of increase	% of sales
Liquor/wine	$ 622,874	3.04%	46.67%
Soft drinks	196,014	5.87	14.69
Nuts	109,094	5.34	8.17
Snacks/cookies	101,520	6.84	7.61
Beer	86,552	6.23	6.49
Canned goods/condiments	58,600	2.28	4.39
Dry groceries	50,825	2.75	3.81
Other foods	109,046	5.08	8.17
Total	$1,334,525		100%

1986 Grocery/liquor department highlights

Chain drug grocery/liquor sales	$1,334,525,000
1986 percentage increase	4.24%
Percentage of total chain drug sales	4.42%
Typical gross margins	15%-20%
Industry profit yield from grocery/liquor last year	$200,149,000 to $266,905,000
Average annual department turns	12.0



Drug store industry finds 'Beer Baron' bills hard to swallow

WASHINGTON — Calling legislation that would exempt beer companies from Federal antitrust laws "anti-competitive," the chain drug store industry renewed its fight against exclusive territorial rights for beer distributors.

The so-called "Beer Baron" bills were reintroduced on both sides of Capitol Hill within the past few weeks. If enacted, the legislation would grant a special antitrust exemption for the beer industry and, in effect, allow a wholesaler to have a beer distribution monopoly.

According to the National Association of Chain Drug Stores, passing a "Beer Baron" bill would "severely hurt competition in the marketplace, reduce services and the availability of products to retail stores and would ultimately result in higher prices to the consumer." The chain drug store industry has consistently opposed the antitrust exemption for beer wholesalers since 1983. Chain drug stores sell more than $125 million annually to malt beverage consumers at retail outlets, NACDS reported.

The chain drug store industry is not the only sector opposing such "beer bills." Similar legislation in past years has drawn fire from the National Association of Retail Druggists and the Food Marketing Institute, as well as state and national officials, consumer groups and antitrust enforcers.

However, Sen. Dennis DeConcini (D-Ariz.), who has resurrected the Senate "beer bill" that he sponsored last year, maintained that the antitrust exemption for beer distributors would help "sustain the intense market competition that characterizes the beer industry."

According to the Arizona Democrat, brewers favor the exclusive territory agreements because they ensure "meticulous service to retailers through the wholesaler's contractual accountability to the brewery."

Notwithstanding potentially improved service, drug store retailers and their customers may end up paying a big price for any beer industry antitrust exemption. Quoting an economic report by the Consumer Federation of America, NACDS reported that such legislation "will cost consumers more than $1 billion annually in higher prices for malt beverage products."

A House measure, introduced by Rep. Jack Brooks (D-Tex.), is similar to the DeConcini legislation.

Last year's Senate bill was withdrawn near the session's end.

Beer group's argument

Contributing to the push for an antitrust exemption to allow exclusive beer territories is the Virginia-based National Beer Wholesalers Association. Association officials contend that the "beer bill" would not eliminate any beer wholesalers or affect beer prices. Instead, the legislation would "preserve the existing and highly competitive wholesale distribution system for beer in the United States.

Md. bill fuels 'special interest' fears

Federal "beer bills" designed to promote exclusive wholesale beer distribution territories appear to be breeding "clone" legislation at the state level.

For example, the Maryland House of Delegates is considering the Wine Cooler Fair Dealing Act, which would limit wine cooler distributors to designated sales territories.

The proposed Maryland legislation lends credence to concerns raised by critics of the Federal "beer bills" that such special interest treatment would slip over into other industries.

Like the Federal proposals on beer, the Maryland "wine cooler bill" is drawing opposition from the Federal Trade Commission. F.T.C. staff members recommended that Maryland lawmakers reject the proposal, warning that it would "likely increase the costs of wine coolers to consumers."

According to the F.T.C., the "special interest" bill would protect inefficient distributors from new competitors and preserve "obsolete distributional arrangements." They recommended that "a more appropriate way" for Maryland delegates to address the problem of alcohol consumption "would be to tax the products directly."

Staple toys and game score high profit points

The spinner landed on toy "staples" again in 1986, allowing drug stores to circle the board on their way to higher profits.

While drug stores' toy department sales were flat—reflecting the industry's trend of the last few years—buyers said profits grew from the sale of high-margin board games, puzzles, preschool, and peggables.

Moreover, buyers predicted more of the same in 1987, based on strong board-game entries by such vendors as Milton Bradley, Parker Bros. and Pressman.

Resurgence of basics

"We saw a tremendous resurgence last year in basics, particularly in board games, and we're looking for that trend to continue," said Mark Keralla, vp-sales, with NationMark Inc., which distributes toys in the Southwest to Tom Thumb/Page, Skaggs, Kroger and Albertson's.

"Last year was excellent if you were in the basics," agreed Paul Chabot, toy buyer with the Providence, R.I.-based Douglas Drug.

Drug stores sold $689,766,000 in toys for the year, a 1.64% decline from 1985. The industry overall experienced a fairly flat 5% growth, as the so-called basics continued to hold the stage in the absence of the blockbusters that had rattled store shelves in the decade's early years. Toy officials looked for another 5% growth in 1987.

Most drug buyers welcome the trend to basics, since it means they can cut exposure in risky, high-investment licenses and trendy dolls in favor of low-bulk, good-margin games.

"I think this is going to be an outstanding year for preschool, board games, puzzles, and other staples," said Steve Lerch, the seasonal buyer for the SupeRx division of Hook SupeRx.

"On the whole, you're going to see a shift in the purchasing habits in the drug industry toward staples and away from the television-promoted items," Lerch noted.

SupeRx strategy

SupeRx posted "excellent" 1986 sales, with its combination of TV-promoted items, staples and "basics." TV-promoted items and staples such as board games are bought on an in-and-out basis throughout the year. "Basics" include a year-round 4-ft. peg display of domestic toys, plus 8 ft. of pegged import merchandise that retails at less than $2.

SupeRx shifted its strategy for supplying stores with toys in 1986, when it began to supply all stores through Kroger's Peyton Group, the food and nonfood distribution arm. The move allows the stores to work with one supplier rather than with dozens of rack jobbers, allows better control of mix and distribution and allows better margins, Lerch said.

Kinney Drug of New York wants to increase the 80% sell-through it had in 1986 by 5 or 10 points, by leaning on this year's strong selections in board games, according to buyer Ed Easton.

No talking dolls

"We won't carry any talking dolls because you can't make any money on them. And the game part of the toy industry is shining," said Easton.

Easton will be aiming for margins in the mid- to high 30s on such entries as Milton Bradley's Torpedo Run, its T.H.I.N.G.S. four-sku mini-skill action games at under $6 apiece, and resurfaced perennials such as Trouble, Headache and Mousetrap. Milton Bradley's Win, Lose or Draw, based on a forthcoming Burt Reynolds television show, looks promising, as does its Max Back Talk electronic voice game retailing at $35 to $45, said buyers.

Chabot at Douglas wants to keep board game price points at under $10, with M-B's Jenga wooden cube game, Feed Me and the Disney Follow That Mouse and Light N' Learn games.

1986 Toy department productivity

Category	Total sales (add 000)	% change	% of sales
Games	$126,045	3.61%	18.27%
Pegged toys	102,682	−2.70	14.89
Cars	89,482	−2.30	12.97
Boxed toys	87,764	1.42	12.72
Preschool	66,783	0.04	9.68
Plush	52,966	−5.71	7.68
Dolls	52,756	−6.03	7.65
Hobbies	38,728	−6.99	5.61
[illegible]	72,560	−3.85	10.52
Total	$689,766		100%

Board games ranked by units sold in 1986
(among a cross-section of large toy retailers)

Rank	Name	Vendor	Type
1	*Question of Scruples	Milton Bradley	Family board game
2	Monopoly	Parker Bros.	Family board
3	Wheel of Fortune	Pressman	Family board
4	*Rubik's Puzzle	Matchbox	Folding puzzle
5	Operation	Milton Bradley	Children's action
6	**Mousetrap	Milton Bradley	Children's action
7	Clue	Parker Bros.	Family board
8	Candy Land	Milton Bradley	Children's board
9	Bed Bugs	Milton Bradley	Children's board
10	*Pig Pong	Milton Bradley	Children's action

*New in 1986
**Restaged in 1986
Source: Toy Retail Sales Tracking Service, division of NPD Group

1986 Toy department highlights

Chain drug toy sales	$689,766,000
1986 percentage decrease	−1.64%
Percentage of total chain drug sales	2.28%
Typical gross margins	35%-40%
Industry profit yield from toys last year	$241,418,000 to $275,906,000
Average annual department turns	4.0

In preschool, Chabot will carry a line by Chicco that he can use as low-end blind items to balance out the Fisher-Price and Playskool offerings, and "make some markup." He will promote five sku's of Chicco at the same price in one ad to offer selection.

'Dynamite board games'

NationMark's Marcella expects new "dynamite board games" to generate profits for his customers, while several new toys should create seasonal excitement on promotion, he predicted.

"We feel there are some very good television-promotional items this year," Marcella said.

His customers need the TV-promoted items to create competitive images against such rivals as Toys "R" Us and mass merchandisers and to spur traffic—even though their limited assortments prevent them from being a market's primary toy outlet.

"In the fall of the year [our customers] suffer, but in the first 10 months, they're better in stock on a day-to-day basis, and they make money. There are a lot of birthday gifts bought in the year's first months," Marcella said.

NationMark supplies 95% of the toys carried by the Southwestern units of Skaggs Alpha Beta Supermarkets, Kroger, Albertson's and Tom Thumb/Page.

In the spirit of the back-to-basics year, Snyder Drugs will be weeding out licensed items, to emphasize money-making basics, carrying 40% to 50% margins, according to buyer Rick Burns.

Perry balances items

Perry Drug attempts to balance generic-type basics with a selection of knockoff items on hot branded products. "Nobody makes money on the television-promoted toys, so we try to take advantage of knockoffs," noted buyer Craig Seivert.

Perry wants to create uniform toy department sizes in all stores, refining sections that now range from 32 to 40 ft., up to a 32- to 36-ft. range. The paint selection for model toys will be pruned. Seivert sees growth in preschool assortments and has high hopes for Shel-Core Inc.'s First Sports, an inflatable goalpost and ball kit.

Chains generally entered the year seeking 40% margins from toy departments that stressed television-promoted toys, used as traffic builders, plus profit-making staples and year-round peggable impulse basics.

Blockbuster candidates

Can a blockbuster possibly emerge? Although no groundbreaking innovations surfaced at the Toy Fair, buyers said a group of toys with the right combination of play value and price are at least stirring memories of the excitement produced by the Cabbage Patch doll and Trivial Pursuit.

Mattel's Captain Power interactive video game is a candidate for toyland immortality, retailing from $26 to $40, some buyers felt. SupeRx will sell it at under $30, according to Lerch.

Kenner's Real Ghostbusters, the boys' and girls' action figures tied to a TV cartoon, showed evidence of revitalizing the action figure classification. "We've had good success in placing it," said Phil Chantron, sales manager at Chapman-Harkey Co., the Charlotte, N.C.-based wholesaler that supplies Kerr Drug.

Buyers warmed to Hasbro's Pogoball, retailing at $12.99 to $17.99, and to SilverHawks action collectibles based on the cartoon show.

"What we're seeing is a lot of new items we didn't have last year performing well," said Marcella.

Shutterbugs give photo departments sales snap

Fueled by big increases in photofinishing and film and videotape sales, photo departments in the nation's drug stores continued strong in 1986, although growth has slowed from prior-year levels. Sales at chain drug photo counters were up another 4.7% last year, to $1.29 billion, as drug chains and independents focused on the boom in 35mm amateur photography and home video.

The point-and-shoot 35mm camera has emerged as the camera of choice among a huge segment of amateur picture takers, eroding sales of both high-end single lens reflex (SLR) models and pocket disc and Instamatic cameras. The shift in the camera market is amply demonstrated by a survey of the photo market in 1986 by the Photo Marketing Association, indicating that easy-to-use, automatic 35s walked away with 37% of the market last year, up from about 23% the previous year.

Demand for the 35mm picture format from younger, more sophisticated shutterbugs has drawn a host of major suppliers into that end of the market, including Eastman Kodak, which abandoned 35mm a generation ago as too complex for the mainstream amateur photographer Kodak sought.

Shift in demand

The fundamental shift in demand since 1980 was enough to change Kodak's mind, and last year, the giant unveiled two automatic 35mm non-SLR models for more serious mainstream shutterbugs.

Kodak, however, was joining an already-crowded field. More than 100 modestly priced non-SLR 35s are now available to mass market retail chains, including recent entries from Fuji, Ricoh and Canon. Drug stores have space behind the photo counter for a handful, at best, and most are opting for those with price points under $100.

Retailers must also find space for disc and pocket camera formats, none of which have gone away despite the 35mm boom. Although disc sales declined substantially last year, to 3 million, they continue to fill an important segment of the market. Even more important in the long run will be basic 110 and 126 models, combined shipments of which actually went up last year as a percentage of total camera sales, to 18.9% of the market, compared with 18% in 1985.

Another area of continued strength, especially in the mass merchandise arena, has been instant cameras. With the exit of Kodak from that market last year, Polaroid owns that segment, which last year accounted for almost 20% of camera sales and 17% of film sales nationally. The market was buoyed by the introduction of Polaroid's Spectra system.

The boom in 35mm photography, however, has been the major driving force in the photo market for several years. Demand among many amateur photo enthusiasts for an easy-to-use but higher-quality camera has also spurred the photofinishing market.

Success in photofinishing

Many chain and independent drug retailers have played successfully on the demands of 35mm users, marketing their photofinishing services more aggressively and taking a greater degree of control over their developing services. Some chains have gone from outside vendors to in-house developing labs, and several are moving ahead with in-store, one-hour mini-labs.

The thrust of such efforts, say retailers, is to gain greater control over the quality of finished prints and to enhance the store's image in photoprocessing. Price, although important, seems to be secondary to print quality, value and convenience.

"Photofinishing is a repeat business, and customers will remember convenience and quality before they remember price," noted Wynne Powell, photo merchandise manager for London Drugs Ltd., a leader in one-hour photoprocessing.

Photoprocessing sales were ahead more than 12% in drug chains last year, accounting for more than one-third of total photo department sales. The single biggest segment of the market, however, remains film. Americans took 13.9 billion pictures last year, according to the PMA. Drug stores remain the second most important outlet for film, with 24% of the market compared with 44% for mass merchandisers and 15% for supermarkets.

The past few years have seen the emergence of Fuji as a major and aggressive force in the film market. Kodak, which held a virtual monopoly over the color-negative film market a few years ago, has seen its share slip to 82%, while Fuji and other, more recent competitors like Scotch have gained ground with aggressive marketing efforts.

The emergence of 35mm as the dominant force in photography is illustrated by the shift in sales. More than half of the 731 million rolls sold to dealers last year were 35mm, according to the PMA. By 1990, 70% to 75% will be in that format, it predicts.

1986 Photo department productivity

Category	Total sales (add 000)	% of increase	% of sales
Film			
Still color	$294,777	11.02%	22.78%
Instant picture	154,131	9.09	11.91
Movie color	11,775	7.81	0.91
Still B&W	4,764	2.19	0.37
Processing	437,292	12.33	33.79
Flashbulbs/flash attachments	199,648	5.06	15.43
Cameras	130,581	6.98	10.09
Blank/Prerecorded videocassettes	61,095	8.89	4.72
Total	$1,294,063		100.00%

1986 Photo/Video department highlights

Chain drug photo/video sales	$1,294,063,000
1986 percentage increase	4.75%
Percentage of total chain drug sales	4.28%
Typical gross margins	20%-25%
Industry profit yield from photo/video last year	$258,813,000 to $323,516,000
Average annual department turns	9.0

Home video boom reaps $61.1M in sales for chains

The home video revolution brought $61.1 million in additional revenues to the nation's drug chains last year, and with about half of all U.S. homes now equipped with VCRs, the boom in sales and rentals of videotapes shows no signs of tapering off.

For retailers, the good news in home video is that 40 million to 50 million U.S. television households have yet to buy a VCR, signaling enormous untapped revenues. The bad news is that competitors in the movie rental business have glutted most communities, and blank tapes can be purchased almost anywhere. It is a market whose intense competitive pressures and shrinking margins beg for a major shakeout.

Growing competition

Despite the growing competition, however, most drug chains and many independents have been lured into the video market, either on an experimental basis, like Pay 'n Save or Walgreens, or as full-fledged market forces, like Rite Aid, Wellby Drug Stores and Longs Drug Stores. The advent of self-contained, self-service vending machines for the rental of movies via credit card has also helped draw new drug store entrants into the market on a risk-free, low-capital basis. Chains like Hook Drugs and many independents have begun testing video vending systems.

A variety of subscription-based rental programs is also available to drug stores without the resources to stock and manage their own movie rental departments. Such programs are now being offered by some drug wholesalers, including Durr-Fillauer.

What is proving irresistible to drug retailers in home video, despite the competitive pressures, is the sheer size and potential of the market. With the price of VCRs dropping well below $400 on average, and some models now available for $200 or less on promotion, millions more households will install movie machines this year. On average, those first-time purchasers will buy half-a-dozen blank tapes this year and will rent several dozen titles from a variety of units that offer convenient locations and competitive prices, like Rite Aid.

Videocassette recorders penetration of U.S. households

1981	5%
[illegible]	[illegible]
1986	38

Source: 3M

3M estimates further that nine out of 10 U.S. households will own at least one VCR by 1995.

What programs will people buy on prerecorded videocassettes in 1988?

General movies	50%
Music	25
Children's shows	8
Adult films	8
How-to	6
Other	3

Source: CBS Fox Video

Retail distribution of blank videocassettes

	1985	1986
Discount department stores	21.9%	23.1%
Radio/TV stores	25.3	17.0
Drug stores	6.7	13.1
Video specialty stores	15.4	11.9
Grocery stores	4.4	8.2
Department stores	7.6	6.5
Catalog showrooms	5.7	4.8
Household appliance stores	6.0	4.0
Other	7.0	11.4

Source: 3M

While unit sales soared 44% to 311 million cassettes last year, mass market channels grabbed a dramatically larger share. Drug stores shot up to third place in unit sales of blank videocassettes.

Impulse items lead sales in general merchandise

General merchandise/sundry products' sales in 1986 were led by quick-turning impulse items, such as jewelry, sunglasses and batteries.

Often helped by cosmetics purchases, sunglasses managed to maintain increased sales in 1986, and drug stores accounted for 20% of the retail activity, according to the Sunglass Association of America.

Shoppers age 25 and under accounted for almost 50% of the total sunglass sales nationwide, as estimated by manufacturer Foster Grant. Drug store retailers agreed with this figure, suggesting that teen-agers—who seek to coordinate a total fashion look—in particular were big sunglass buyers.

At some Dart Drug stores, for example, the sunglass rack is positioned near the cosmetics area in order to play off the chances of this total or multiple sale look.

However, getting into the more fashionable styles—which are often subject to fad changes—is something some retailers said they try to avoid.

Average sale about $9.50

While many retailers increased sunglass sales through promotions on the typically $8 to $15 price range, chains with stores in more affluent areas—such as Austin Drugs' Long Island, N.Y., store—said they experimented with some $150 glasses.

However, the average selling price for sunglasses was about $9.50 for most chains.

Pantyhose/soft goods also were placed to take advantage of multiple sales at many drug chains, with retailers putting the category near cosmetics.

Jewelry and watches gained growing attention by drug store consumers as retailers reported steady sales. Fashion colors and a $5 average price were crucial selling points for earrings, which were the top-selling jewelry items. Although drug stores said the fashion correlation was important for jewelry, most said they stay away from the real trendy pieces.

Battery sales grew

Watches, too, had a fashion element, but more important was the strong sell-through of sport watches. The bulk of the business fell into the $20 to $35 range, with the Christmas selling season accounting for much of the volume.

Spurred by the need for batteries in radios, cassette players and recorders, battery sales increased more than 10% nationally during the past year. The consumer electronic category accounted for 32% of battery sales, while flashlights and toys/games accounted for 19% and 18%, respectively, according to a report by the National Family Opinion Consumer Purchase Diary.

Alkaline batteries surged in sales during the year, as more consumers turned to the longer lasting products. Studies show that the alkaline category could grow from a 62% share to 75% by 1990.

Mixed reaction to Kodak

Kodak also introduced its battery line, receiving mixed reaction from retailers. Several drug chains said they were hoping for something unique but found Kodak's selection similar to the offerings by Eveready, Rayovac and Duracell. However, some retailers said the Kodak name alone, combined with the bright packaging, worked to produce plus sales.

With the introduction of Kodak's line, battery competition among vendors heated up, giving retailers the benefit of lower prices, rebate offers and giveaways.

Other top-selling general merchandise items—particularly at the checkstand—were VHS tapes, playing cards and tennis balls.

*1986 General merchandise productivity**

Category	Total sales (add 000)	% of increase	% of sales
Sunglasses	$ 201,757	7.49%	16.65%
Pet needs	163,695	6.33	13.50
Sporting goods	137,434	2.48	11.34
Pantyhose/soft goods	213,363	5.22	17.60
Watches/bands	109,411	5.88	9.03
Home electronics	101,827	7.44	8.40
Batteries	170,912	9.34	14.10
Yarn/sewing notions	76,293	2.16	6.29
All others	37,419	3.85	3.09
Total	**$1,212,111**	**100.00%**	

*Reflects shift of giftware and vaporizers humidifiers to housewares.

1986 General Merchandise department highlights

Chain drug general merchandise sales	$1,212,111,000
1986 percentage increase	5.89%
Percentage of total chain drug sales	4.01%
Typical gross margins	35%-45%
Industry profit yield from general merchandise last year	$424,239,000 to $545,450,000
Average annual department turns	5.0

Sunglasses are quick sellers

Although sunglass sales peak in the spring and summer, the Sunglass Association of America (SAA) reports there is steady yearlong business. In fact, a study by the association showed that the off months account for about one-third of total sunglass sales.

On an index of 100 for the average month, sales in May rated at the peak with 140, closely followed by June (136), July (133) and April (123), according to the association's survey.

The lull in sales hits in November (63), December (64) and January (66), but February shows more volume, with a rating of 87. Despite this drop, the association said the mere fact that sunglasses continue to generate sales in the fall and winter months is a "revelation" and indicates that more retailers should keep sunglasses on display year-round to increase sales.

In 1986, over-the-counter sunglass sales reached a record level of $1.2 billion nationwide—the third year it topped the $1 billion mark, according to SAA.

An Eckerd store in a tourist part of Florida cross-merchandises sport sunglasses with fishing gear, showing a product mix tailored to local needs and an attempt to snare impulse sales.

Fay's
Baby
toddler toilet seat

Fay's merges its need to satisfy young mothers with baby-oriented general merchandise and its desire for high private label margins by selling store brand baby essentials.

Chains growing more selective in housewares

Housewares grew by 2.8% in 1986 to $2 billion but declined slightly as a percentage of total drug chain sales to 6.6%, compared with 6.7% in 1985.

In one major trend, chains such as Fay's, Big B and Perry cut back selections in personal care, particularly hair dryers. They found they could maintain hair dryer sales, nevertheless, because consumers view them as substitutable commodities. Buyers, meanwhile, predicted that vendor efforts to meet the UL immersion requirements will hike hair dryer prices 3% to 6% and enable retailers to build up diminished profits, if they can hold margins.

Everyday houseware items provided 35% to 45% margins. Drug retailers typically emphasized branded flatware, bowls and utensils, microwave cookware and small kitchen appliances at under $10.

Rounds out store mix

"It's not a growth category. It's just something that rounds out your stores' mix," noted Marvin Gresham, president of Gresham Drugs, which carries unpromoted kitchen utensils, plastics and glassware at under $10. He also promotes rebates on Conair, Windmere and Clairol hair dryers.

Fay's found it could heavily cut back on hair dryer selection in its everyday department, yet maintain sales with just the Conair and Vidal Sassoon lines.

"These two were providing the numbers," said Fay's buyer Ernest Ross, who cut out lines by Norelco, Black & Decker and Sunbeam.

Ross said shoppers failed to respond to vendors' efforts in 1985 to differentiate personal care by marketing travel kits and his/hers combinations.

Fay's will carry Conair and Vidal Sassoon at an everyday retail of $12.99 to $16.99 while sponsoring in-and-out promotions of Clairol sku's at under $24.95 for Mother's Day, back-to-school and Christmas.

After culling out Vidal Sassoon, Clairol and Gillette from its personal care assortment, Big B will promote Conair as a traffic builder. "They're all made exactly the same," noted Big B merchandiser Paul Bruno. The chain can offer customers a net price of $3.99 combined with $10 in rebates, and still take a 23% margin, Bruno said.

Hair dryer selection

Perry also is consolidating its hair dryer section around three brands: Vidal Sassoon, Conair and Clairol, as it attempts to hold margins in the face of tough competition. "I think the consumer has seen a price point established, based on some of those rebates, and we're almost locked into that at this point," noted Perry buyer Mark Fournier.

Pay Less NW uses a broad selection of dryers which move well through regular promotion. It uses tilted shelving to show more than five lines, which it cross-merchandises with hair care toiletries, including permanent mixes and blow dry gels, according to several sources in Pay Less California stores.

"They smoke out of here," said one store manager, at prices of $6 to $8.99 after rebate.

Pay Less offers a generic line at $3 less than branded retail. Rix Dunnington in Massachusetts similarly uses the off-brand five-sku Zodiac line by Gemini to get 40% margins, compared to 30% on such brands as Shetland, Candies and Norelco, said buyer Jay Weiner.

Limited space and lack of a strong housewares image at drug stores have led to mixed results with microwave cookware. Pay Less NW has featured Nordicware and Anchor Hocking and promotes Rubbermaid at $12 to $22 for 10-piece set.

Mixed views on microwave

"We were in it real strong three years ago, but we were a little bit before our time," said Big B's Bruno. The stores are now limited to five sku's of Anchor Hocking at $5.99 apiece.

Rix Dunnington avoids microwave due to space constraints. Yet Douglas Drug has "hit pay dirt" with low-end Anchor Hocking in floor displays at $2.99 to $3.99 apiece—even though the chain failed to make profit headway in microwave ovens, when it carried a line for $99 on promotion. "It's getting to the point where there is no bottom. People were running [microwaves] at cost," said buyer Paul Chabot.

Pay Less has gained growth from cookware it advertises in coupon books, and displays in a 24-ft. counter. Lines include Regal cookware with SilverStone nonstick coating, Corning and Mirro.

Super D and Big B have logged brisk sales in small appliances by sticking with low end lines and promoting them, buyers said.

Big B tries to hit a price point under $9.99 in its small appliance section built around the Hamilton Beach brand. Bruno said the chain is looking to expand its small appliances, but a foray into mini-food processors this Christmas was disappointing. Big B also wants to expand its closet section.

Super D achieves steady housewares sales, in part, by carrying a low-end Hamilton Beach mixer at $14.88 and a Waring hand mixer at $8.88—which meet the utility and price needs of about 75% of its market's consumers, estimates buyer Gene Bailey.

1986 Housewares department productivity*

Category	Total sales (add 000)	% of increase	% of sales
Plastic and rubber housewares	$ 422,818	9.26%	21.11%
Personal care	219,750	−2.71	10.97
Household supplies	228,005	4.55	11.39
Small electrics	192,773	1.94	9.63
Glass/dishware/cookware	185,632	−2.43	9.27
Paper products	150,186	3.45	7.50
House & kitchen gadgets/ gourmet	113,784	1.22	5.68
Lighting products	92,375	2.31	4.61
Picture frames/mirrors	67,945	−2.54	3.39
Insecticides	62,799	5.71	3.14
Furniture/outdoor furniture	53,453	2.93	2.67
Plant/plant care	47,551	2.58	2.37
Bath/closet	36,411	3.70	1.82
Vaporizers/humidifiers	21,381	8.49	1.07
Giftware	25,848	−1.74	1.29
Miscellaneous	81,961	0.33	4.09
Total	$2,002,672		100.00%

*Reflects shift of giftware and vaporizers/humidifiers from general merchandise.

1986 Housewares department highlights

Chain drug housewares sales	$2,002,672,000
1986 percentage increase	2.84%
Percentage of total chain drug sales	6.63%
Typical gross margins	35%-45%
Industry profit yield from housewares last year	$700,935,000 to $901,202,000
Average annual department turns	3.0

Bendable rollers fuel growth in personal care

(Manufacturers' units shipped in millions)

	1984	1985	1986	1987*
Curling brushes	2.2	2.2	2.3	2.4
Curling irons/wands	6.2	6.0	7.0	7.0
Pistol hair dryers	14.6	14.9	15.4	15.6
Styling hair dryers	5.4	6.0	6.1	6.5
Hair setters	[illegible]	3.0	3.2	3.7

Source: Conair Corp.
*Estimated

OVER 60?
SAVE 10%

Low-ticket plastics make up much of the housewares section in this Raleigh, N.C., Eckerd unit, which also emphasizes convenience with a microwave cookware assortment.

1986 Do-it-yourself department productivity

Category	Total sales (add 000)	% of decrease	% of sales
Hardware	$178,398	−5.39%	44.61%
Automotive	161,793	−6.61	40.45
Paint/paint supplies	59,766	−4.66	14.94
Total	$399,957		100.00%

1986 DIY department highlights

Chain drug DIY sales	$399,957,000
1985 percentage decrease	−5.78%
Percentage of total chain drug sales	1.32%
Typical gross margins	35%-45%
Industry profit yield from DIY last year	$139,985,000 to $179,981,000
Average annual department turns	3.0

At Fay's, which counts heavily on general merchandise sales, the automotive run includes a complete waxer/cleaner assortment.

Drug stores look to reposition DIY departments

Drug chains are reassessing do-it-yourself. While it offers convenience to shoppers, it doesn't support stores' health care images.

For instance, Perry Drugs took a strong position in saying it will cut back on automotive, hardware and other nondrug departments within its drug stores to help clarify its health image. They don't want to be confused with department stores or deep discounters.

The plan involves segregating the 2,500 to 3,000-sq.-ft. automotive and hardware shops that have been paired with drug stores, by closing off entrances or folding merchandise into Perry's freestanding auto parts stores.

But the drug stores will retain in-line automotive and hardware sections of 12 ft. to 16 ft. to preserve the convenience its customers have come to expect. Also, sales are good, according to Perry buyer Robert Heather.

Total drug store DIY sales were less impressive, dropping 5.8% to $400 million in 1986 from 1985's $424.5 million. They account for only 1.3% of total sales.

Kerr Drug is among chains reassessing hardware, automotive, lighting and electrical departments. "It seems to me that the category is not progressing a great deal," said Kerr buyer Dan McAlister.

Kerr, re-evaluating its mix, may downgrade some lines such as tools. It has carried the high-end Vermont-American handtool line but is now thinking a lower-end may be more appropriate. It will review an import program of such items as hand tools and gloves that its stores could offer on an in-and-out basis in dollar-day type promotions and circulars.

While the 16 ft. of hardware, 20 ft. of automotive, eight ft. of light bulbs and four ft. of electrical are in a high-traffic first aisle site, McAlister feels the sales momentum may have been slowed by competitors such as Hechinger's home center chain, which stays open on Sundays.

By staying competitive in price with hardware stores and by recently expanding selections in hardware, Tom Thumb/Page has grown DIY sales in departments in its combos and freestanding drug stores, said buyer Ray Martin.

Targets female shoppers

In 8-ft. to 12-ft. drug store departments—expanded from 4 ft.—and in 48-ft. to 60-ft. food store sections, Page has been honing in on the female shopper, with more attention to fashion and a change in promotional tactics.

"We've gotten a little creative," said Martin, noting that some fashion-colored hooks and refrigerator magnets were added. Also, the emphasis is on packaging with easy, how-to-use directions for consumers.

In expanding the drug store selection, Page added a four-ft. emergency plumbing center.

Page's hand tool assortment is built around a mid-priced line with as much variety as possible for $2 to $10.

In promotions, Page now offers kits for plumbing repair and painting, rather than single items, supporting the do-it-yourself image.

Promotes frequently

"Even though you think the promotions might not be a draw, it's important to promote frequently so the customer will know you are in the business," Martin said.

Chains with limited selling space feel they can do without DIY altogether. Rix Dunnington, with stores of 6,000 sq. ft. selling space, has avoided the category, as has Happy Harry's, with stores of similar size.

"We would have to have a 10,000-sq.-ft. store to carry those categories. You can't get away with less than a 24-ft. department," said Pat Triboletti, vp-merchandising at Happy Harry's.

The Owl Drug chain in upstate New York overcomes the size hurdle by carrying products on an in-and-out seasonal basis. It also uses a co-op buying program that allows better margins than it could obtain through a conventional wholesaler, said vp Bill Fleming.

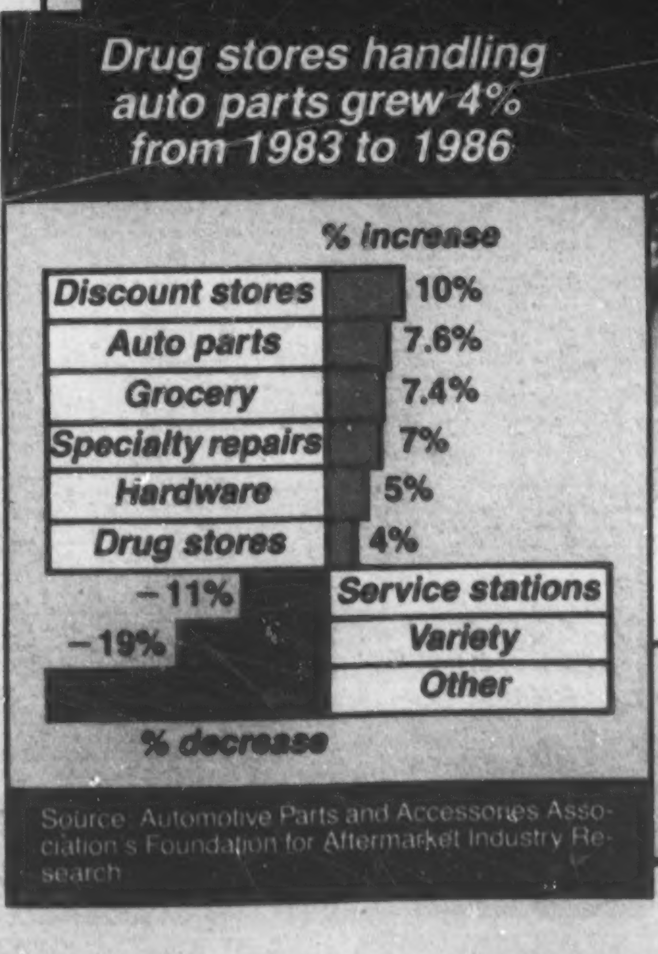
Owl displays 12 to 20 ft. of building and repair-related items in the spring and an energy conservation theme in the fall. "But I've got to take it out by Nov. 1 to make room for Christmas," said Fleming.

Owl buys through a co-op service, which gives it easy access to products from many manufacturers. The service also handles billing for a total 2% upchange.

On the bright side, drug stores claimed a bigger piece of the automotive aftermarket—24.1% in 1985 among retailers who aren't auto parts stores—according to *Home and Auto* magazine.

Drug chains, through their automotive departments within drug stores, were the only nonautomotive sector to increase share, up 1.1%. Food chains accounted for 34.7%, and hardware chains, 32%, the magazine said.

Adhesive tapes and glues are an integral part of the do-it-yourself statement in this Raleigh, N.C., Eckerd store.



Drug stores handling auto parts grew 4% from 1983 to 1986

Source: Automotive Parts and Accessories Association's Foundation for Aftermarket Industry Research

Extensive mix of engine chemicals, filters and automotive accessories at Osco, Aurora, Colo., rivals the variety at discount stores.

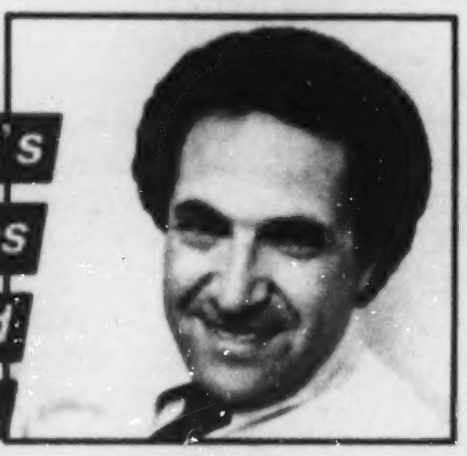
Pharmacy has a bright future

Drug Store News has just completed its Annual Report of the Chain Drug Store Industry (if you are a paid subscriber, you have Part II in your hands right now), and even if you're not a chain pharmacist, what it contains will, I think, leave its imprint on the entire pharmaceutical community.

Reports of this magnitude offer pharmacists and retailers alike a peek at the future. If, by chance, you are not already a subscriber, perhaps I can offer you a recap of what I saw as some of the highlights in 1986 and their impact on the profession of pharmacy.

Overall, I have to say that 1986 wasn't a bad year for the profession. The report shows a nearly 11% growth in prescription sales, still the highest of any department in the store, proving to me, once again, the importance of attention to key core departments.

Cohen's Capsules
Harold Cohen, R. Ph.



Traveling around the country, visiting with chains and independent pharmacists, I can say with some authority that the professionalism is back. Pharmacists are once again practicing pharmacy the way it was meant to be practiced, and the nicest thing is, it appears that the chains are encouraging it.

I saw more pharmacists utilizing their time in counseling patients, thanks, in part, to sophisticated pharmacy computerization. I visited independents who are spreading their wings into other areas of the profession where their talents can be put to better use.

The report also revealed that it was a banner year for the branded drug industry, with new introductions up over 20% from the previous year. That's good news for both pharmacists and consumers. New prescription products allow physicians to treat a wider array of diseases, and that translates into an increase in business for the pharmacist.

The report from the generic sector wasn't too shabby either. A day doesn't go by that my desk isn't loaded with press releases reporting on new generics coming into the marketplace. Analysts predict that, in the next decade, generic sales could top the $3 billion mark. I think that's also good news for pharmacists. It allows them to compete in a market that was once dominated by higher-priced branded products.

But through it all, pharmacists have had to face some difficult problems; a few, I'm afraid, will not evaporate quickly . . .

Physician dispensing is on the rise and spreading. Doctors in many parts of the country are embracing the idea because of dwindling customer bases that are going to HMOs and "doc in the boxes." I don't care what the F.T.C. says, physician dispensing is proliferating for one reason only—economics. Physicians see it as an easy way to make a buck. It's a problem for pharmacy.

But I personally believe that physician dispensing will be short-lived, because there is no physician practicing today that can offer consumers more for their prescription dollar than the pharmacist. Ultimately, it will be those very consumers who will turn their backs on physician dispensing.

Another serious problem that some pharmacists face is the growth of exclusive third-party contracts. Again, I believe that the pharmacist will eventually come out on top because the consumer just won't stand for having his freedom of choice stripped away.

On a more positive note, pharmacists in Florida have begun prescribing. Even though our studies show that many are not participating in the program, I don't think it will remain that way. I predict that the formulary will be expanded to emergency doses of more potent drugs like antibiotics and analgesics. Even though I believe that pharmacists' prescribing on a limited basis is good for the profession, I would not want to see pharmacists taking the place of physicians on the prescribing scene.

Overall, I'm encouraged with what we have to report on the state of pharmacy in 1986. I think pharmacy has a bright future if only pharmacists do not ignore the warning signs that could spell disaster.

LETTER

I have had many patients who have said categorically that they would not trust a physician who dispenses. They may use him for an emergency prescription, but that's it. The treatment a physician would offer would be mediocre at best due to conflict of interest. Monetary considerations and minimal inventory would result in "minimal" treatment. To think otherwise is foolish.

A physician is not going to invest in new and better drugs on the market. He will not even look at them because he has to worry about all the money he would have sitting on his shelf. It's just human nature. To think otherwise is naive.

The story is quite different with counter-prescribing by pharmacists, because it is usually an interim treatment and without appointment.

The bottom line is patients here say (and I agree) . . . Do not trust a physician who dispenses.

Nadir Jamal, *pharmacist,*
Brechin Pharmacy,
Ontario, Canada

Pharmaceutical industry leaders attend NWDA annual merchandising conference in New Orleans. Photos on page IP8.

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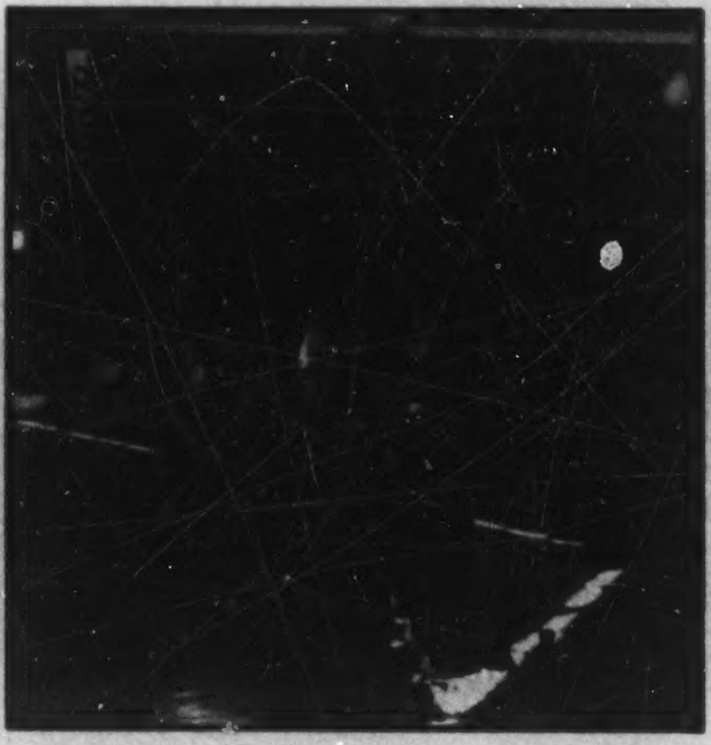

Medical Malls: A vision of the future

Medical City Dallas occupies a 40-acre site in Dallas' commercial Park Central. Approximately 3,000 people enter the mall daily to see the 400 doctors whose offices are housed there, or visit someone in the mall's 545-bed hospital.

The medical mall represents a whole new way of delivering health care in this country, and barometers point to its continuance. Learn what goes on behind the walls of one of these malls and where you can expect to see more built in the future ...... p. IP11

FEATURE

OTC Buyer Feedback Study . . . In an exclusive survey conducted by *Drug Store News*, buyers of OTC products reported that manufacturers' reps are making their visits often enough, but the information they provide is inadequate ...... p. IP25

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INSIDE PHARMACY

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Vol. 2, No. 4 April 27, 1987

OTC buyers: Vendor info, service inadequate

Independent and chain OTC buyers who are regularly visited by manufacturers' representatives are not getting the level of information and services they consider important in making purchasing decisions.

In fact, according to a just completed survey of 59 top dollar-volume chains and independents conducted by *Drug Store News*, service information levels have actually declined over the past year, even though OTC sales representatives are doing a fairly good job of making their visits.

Visits adequate

An overwhelming majority (80%) of the OTC buyers said they were satisfied with their current visitation schedule. Only 12% wanted more frequent visits.

Most (86%) said they saw a manufacturer's rep twice a year or more often, with nearly one-third reporting that a visit "more than once a month" was the most common. The remainder said they were visited monthly or once every two to six months. Eight percent said they were visited once a year, and 2% cited less then yearly visits.

The study revealed that, for the most part, the reps are visiting both indys and chains to the buyers' satisfaction. Virtually all (96%) the chains claimed visits twice a year or more often, while a smaller percentage of the independents (77%) claimed the same. Based on number of months per visit, the chains showed a clear advantage.

On average, the chains were visited once every 1.8 months, whereas independents saw manufacturers' reps considerably less often—once every 4.3 months.

The survey found that although the buyers are generally satisfied with the frequency of visits, the reps are not making the best of their time with the buyers.

Information lacking

In a similar study conducted last year, buyers agreed that service from OTC manufacturer reps was not what it should be. This year's study revealed that those same service levels, according to the buyers, have declined further.

Buyers were asked to rate the importance of 15 types of services provided by manufacturers' representatives during their visits. The information was categorized into four main groups: merchandiser promotions, consumer promotions/advertising, obtaining information and miscellaneous services.

Only five of the 15 specified services showed improvement over 1986 ratings, while satisfaction in all other areas has declined. In fact, no one service received a top box rating by a majority of the respondents this year.

Of all the categories of services provided by reps, merchandiser promotions was chosen by 90% of the buyers as being the most important in their decision to purchase and stock a particular brand of OTC. The second most important (85%) was obtaining information (including new products, regional market shares, product movement, etc.). The third category was miscellaneous services (such as invoice dating, planograming), chosen by 76% of the buyers. Consumer promotions/advertising was considered least important.

Merchandiser promotions

The single most important service to buyers offered by OTC manufacturers is their return goods policy.

According to the survey, both the chains (86%) and independents (77%) gave high marks to this service as figuring heavily in their decision to purchase product.

In other areas of merchandiser promotions, the chains and independents were not as close in their responses.

In discussing display allowances, 72% of the chain buyers considered this "very important," compared with 30% of the indys. There was even a large disparity in case allowances (59% considered very important by chains, 13% by independents) and new display materials (21% for the chains, 17% for the independents).

Obtaining information

Obtaining information concerning new products was the second-highest-rated service overall by both chains and independents.

The independents (80%) reported they were thirstier for this kind of information than the chains (69%). Other information that both the chains and independents felt was "very important" in their decision to purchase and stock a particular brand included, in decreasing order of importance: regional market share, product movement and consumer consumption/usage patterns.

As one would expect, although national market share information was low on the list of types of information found helpful, it was of more interest to the chains (28% ranked it as "very important") than to the indys (only 7% thought it "very important").

Consumer promotions/ads

Overall, consumer promotions/advertising was ranked as the third most important area of service by both the chains and independents. But because of the heavy dependence on consumer promotions by the chains, significant differences on how the two retail segments answered this question were apparent in analyzing the data.

Upcoming consumer ad campaigns and promotions were considered "very important" by 79% of the chain respondents, compared with 23% of the independents. Oth-

Continued on page IP31

Services rated "very important" in decision to purchase and stock a particular OTC product

	Total % respondents	Type of company	
		Drug chain % respondents	Independent % respondents
Merchandiser promotion	**90%**	**97%**	**83%**
Return goods policy	81	86	77
Display allowances	51	72	30
Case allowances	36	59	13
New display materials	19	21	17
Obtaining information	**85**	**86**	**83**
New products	75	69	80
Regional market share	30	38	23
Product movement	30	34	27
Consumer consumption/usage patterns	24	24	23
National market share	17	28	7
Consumer promotional advertising	**71**	**90**	**53**
Upcoming consumer ad campaigns and promotions	51	79	23
Co-op advertising	48	76	20
Consumer rebate program	29	41	17
Cents-off consumer coupon programs	25	24	27
Miscellaneous services	**76**	**86**	**67**
Invoicing dating	64	69	60
Planograming	25	28	23

Source: Lebhar-Friedman research

Pricing strategy in average OTC department

	Type of company	
	Chain	Independen
We stay competitive with other drug stores in our market	52%	67%
To bring shoppers in, we rely on sales and low promotional prices rather than low everyday prices	21	17
We rely on everyday low prices with little or no advertised sales	10	3
We are never undersold	7	—
We have a full service/full price orientation	7	13
Don't know/ no answer	7	—

Note: Percentages may not add to 100% due to rounding.
Source: Lebhar-Friedman research

Vendors' return goods policy gets top priority

Probably the No. 1 question asked by manufacturers' reps when introducing a new OTC product to retailers is, "What can I do to influence this buyer to put our product on his shelves?"

According to an overwhelming majority (83%) of chain and independent buyers interviewed by *Drug Store News*, the single most important factor in their decision to take on a new OTC is the company's return goods policy.

The second most important area overall that retailers look at is the availability of the new product.

Other factors that were rated "very important" in making a decision to take on new OTC products include, in descending order:

- Off-invoice allowance
- Dollars budgeted for consumer advertising
- Types of media used to teach new consumers
- Detailed information about the product
- Display allowances
- Consumer promotion programs
- Co-op advertising
- Innovative quality
- Suggested retail price
- Number of sku's

While the chains and independents agreed in most areas on importance, the one area in which there was a great difference of opinion was "detailed information about the product." The independents thought it should rank as the second most important factor, whereas the chains considered that item of little importance, ranking it sixth.

Factors affecting decision to take on new OTC product introduction

	Total % respondents	Type of company	
		Drug chain % respondents	Independent % respondents
Dollars budgeted for consumer advertising	83%	83%	83%
Availability	64	69	60
Off-invoice allowance	59	79	40
Dollars budgeted for consumer advertising	54	83	27
Types of media used to reach new consumers	52	76	30
Detailed information about product	51	34	67
Display allowances	48	66	30
Consumer promotion programs	42	62	23
Co-op advertising	37	55	20
Innovative quality	37	52	23
Suggested retail price	36	34	37
Number of sku's	29	45	13

Source: Lebhar-Friedman research

Poll: Chains, independents strive for product variety

Despite a continuing industrywide shift of OTC products away from traditional drug store shelves to more nontraditional retail settings, chains and independents surveyed by *Drug Store News* reported aggressive advertising and pricing strategies for the OTC product category.

According to this year's OTC Buyer Feedback Study, more than three-quarters of the chains and independents polled said they "carry most of the major brands and sizes available to give shoppers a broad variety of selection."

Only 20% "carry at least three to five brands in the major OTC categories," and a slim 5% responded they "carry only the No. 1 and No. 2 brands in most OTC categories."

More than half (59%) of the sample said that their pricing strategy was to "stay competitive with other drug stores in our market."

Just under one-fifth (19%) said they build traffic in their stores by relying on "sales and low promotional prices rather than low everyday prices."

OTC product advertising

Only 8% said, "We have full service/full price orientation." Nearly the same amount (7%) said they "rely on everyday low prices, with little or no advertised sales." Only 3% said they base their pricing strategy on never being undersold.

More than three-quarters of the total number of buyers surveyed said they advertise OTC products once a month or more—no change from last year's survey results.

But the study showed that the frequency of OTC product advertising over last year has increased slightly.

This year, 44% of the buyers reported that they advertised OTC products once or twice a *week*, compared with 45% who last year responded that they advertised once or twice a *month*.

As one would expect, chains, with generally higher advertising budgets than the independents, advertise more frequently (66% vs. 23% in 1987, compared with 50% vs. 20% last year).

The survey showed that there has been an increase in the ratio of OTC to total products in print ads, especially among the independents. In 1986, OTC products comprised an average of about 54.2% of the total products featured in an ad, compared with 1987, in which the ratio increased to 66%. Independents reported that in this year's ads, OTC products account for approximately 78% of total products, compared with a 1986 average of 58%.

OTC sales history

Both the chains and independents reported a 10.9% increase in OTC sales in 1987, compared with an increase of 10.5% in 1986.

But more respondents reported a decrease in OTC sales than last year. In 1987, 17% of the buyers surveyed said they saw their sales drop, compared with 7% who said the same thing last year. Only 3% reported that OTC sales were flat this year, compared with 10% reporting flat OTC sales in 1986.

Why the increase in sales?

One-third of the buyers pointed to pricing strategies as the reason for the jump in sales. Increased prices were cited by 18% of this group—more than twice as many respondents who gave this reason in 1986. Consistent with 1986 responses, 11% cited a lowering of prices (leading to increased volume) as the major reason for the increase in sales; 28% said more or better advertising promotions or displays; 24% credited increased sales/inventory or population; and 26% said they felt the increase in sales was due to new product introductions/more OTC items available.

The buyers said OTC sales were responsible for an average of 24.5% of their total annual dollar volume. Independents were only 1% higher than the chains.

Space allocation

More than half of the buyers said the space allocated to OTC products remained the same over last year, but 42% said that space had increased at an average of 9.3%. Only 8% said that space had decreased.

Again, as one would expect, the larger chain stores were more likely to answer that space allocation had increased. More than half of the chains (58%) said they increased their OTC allocation, while only 23% of the independents reported an increase.

How buyers describe their product category mix

	Type of company	
	Drug chain	Independent
Carry most of the major brands and sizes available to give shoppers a broad variety of selection	79%	70%
Carry at least three to five brands in the major OTC categories	21	20
Only carry the No. 1 and No. 2 brands in most OTC categories	—	10

Source: Lebhar-Friedman research

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** From a national marketing study. Data on file, Reed & Carnrick, 1986.

* Data on file, Reed & Carnrick, 1986.

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OTC Buyer Feedback Study

INSIDE PHARMACY

OTC buyers want more info

Continued from page IP25

er services included, in descending order: co-op advertising (considered "very important" by 76% of the chains and 20% of the indys), consumer rebate programs (41% chain response, 17% independents) and cents-off consumer coupon programs, considered least important by both groups (24% chains, 27% independents).

Miscellaneous services

In the last segment, miscellaneous services, only two areas of service were indicated: invoice dating and planograming. The chains and independents were about even in ranking their importance in the buying decision.

Invoice dating was considered much more important than planograming, with 69% of the chains and 60% of the indys pointing to this service as "very important." Planograming got only 28% of the chain's vote, compared with 23% from the independents.

1986 vs. 1987 satisfaction levels

The five areas of overall (both chains and independents) improved service information were display allowances, case allowances, product movement information, new product information and consumer rebate programs.

Product proliferation

For two years in a row, buyers gave low grades to manufacturers in terms of helping them reduce product proliferation.

Roughly half of the buyers (48%) said the reps were only average in their help to curb product proliferation (48% in 1986 and 42% in 1987). Only 24% (22% in 1986) rated the manufacturers' reps as "outstanding/above average" in this area, and almost a third (34% in 1986, 30% in 1987) found the reps "below average or poor."

Current and desired frequency of seeing manufacturers' representatives

	Drug chain		Independents	
	Current	Desired	Current	Desired
More than once a month	31.0%	31.0%	33.0%	27.0%
Once a month	41.0	38.0	17.0	17.0
Once every 2-6 months	24.0	24.0	27.0	47.0
Once every 7-11 months	3.0	3.0	3.0	—
Once a year	—	—	17.0	3.0
Less than once a year	—	3.0	—	3.0
Don't know	—	3.0	—	3.0
Mean number of months per visit	1.8	1.9	4.3	3.3

Note: Percentages may not add to 100% due to rounding
Source: Lebhar-Friedman research

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Best Selling Categories of Winter

The chart below lists the best selling categories in food stores for the months of December, January and February.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in December 1985, and January and February 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

FOODS AND GROCERIES: BEST SELLERS OF WINTER

(Averaging three year index ranking)

December

Foods	Index ranking
Canned cranberries	374
Novelty candies	326
Dates	259
Baking nuts	250
Canned onions	240
Packaged chocolate covered fruits	236
Piecrust mix	214
Corn Syrup	213
Canned potatoes	210
Packaged solid chocolates	207
Brown sugar	202
Stuffing mixes	199
Maraschino cherries	194
Chocolate creams	193
Dry yeast	189
Marshmallows	185
Coconut	183
Baking chocolate	180
Pie fillings	179
Packaged hard candy	179
Croutons	174
Confectioner's sugar	174
Ripe olives	172
Sterilized milk	170
Cider	166
Molasses	165
Spanish olives	165

Nonfoods	
Heatable bags & wraps	285
Fireplace logs & bricks	257
Disposable containers	167
Rock salt	164
Coffee makers	156
Rodenticides	142
Flash bulbs	138
Batteries	131
Oven cleaners	125
Aluminum foil	124

January

Foods	Index ranking
Maraschino cherries	249
Dates	249
Cake decorations	238
Coconut	206
Corn syrup	202
Molasses	200
Baking chocolates	192
Cream of tartar	191
Canned meats	191
Cake flours	180
Confectioners sugar	177
Baking nuts	175
Brown sugar	170
Cocoa	166
Baking extracts	164
Spanish olives	160
Chili sauce	158
Cider	157
Canned onions	157
Canned dry beef	147
Cocktail mixes	147
Canned sauerkraut	147
Canned shrimp	144
Canned cherries	144
Dried apricots	140
Canned cranberries	144
Canned beans	134

Nonfoods	
Rock salt	344
Fireplace logs & bricks	330
Flash bulbs	213
Batteries	156
Heatable bags & wraps	149
Waxed paper	143
Disposable containers	142
Coffee makers	134
Plastic flatware	120
Light bulbs	113

February

Foods	Index ranking
[illegible]	155
[illegible]	149
[illegible]	147
[illegible]	145
[illegible]	145
[illegible]	144
[illegible]	144
[illegible]	139
[illegible]	139
[illegible]	138
[illegible]	137
[illegible]	136
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[illegible]	128
[illegible]	127
[illegible]	127
[illegible]	127
[illegible]	125
[illegible]	124
[illegible]	124
[illegible]	124
[illegible]	122

Nonfoods	
Rock salt	291
Fireplace logs & bricks	225
[illegible]	126
[illegible]	121
[illegible]	119
[illegible]	117
[illegible]	116
[illegible]	112
[illegible]	112
[illegible]	111

[illegible]

Mass Merchandising Groceries

Promotional activity sparks grocery product sales in drug and discount store outlets. Grocery sales will top $10 billion in 1987

Grocery sales in nonfood outlets are expected to increase about 6% this year to an estimated $10.2 billion market.

Grocery product sales through drug, discount and general merchandise and variety stores, which rose 5% in 1986 to an estimated $9.6 billion, are expected to go up about 6% in 1987 to approximately $10.2 billion.

The growth is due to the aggressive use of food and grocery related promotions as traffic builders as well as to expanded assortments of snack and convenience dry and refrigerated grocery sections in drug stores, and expanded space for snacks, household chemicals and other grocery related departments in discount stores.

Right now drug stores generate the bulk of grocery related sales in the mass market arena. According to *FM* estimates based on an analysis of Dept. of Commerce merchandise line sales trends, drug stores in 1986 generated nearly $4.8 billion in grocery product sales in 1986 or close to 50% of all grocery sales in nonfood stores.

Discount stores, for the same period, generated about $2.7 billion in grocery product sales while general merchandise, variety and department stores captured the remainder of the sales, about another $2.1 billion.

Our estimates include sales of packaged grocery items like cereals, salad dressings and cake mixes as well as sales of candies, packaged alcoholic beverages, pet food items, soaps and household cleaners and detergents as well as paper goods like toilet and facial tissues.

However, they exclude the sales of soft drinks and snack foods like potato chips that are store delivered rather than warehoused.

In the mass merchandise retail segment, drug chains are doing

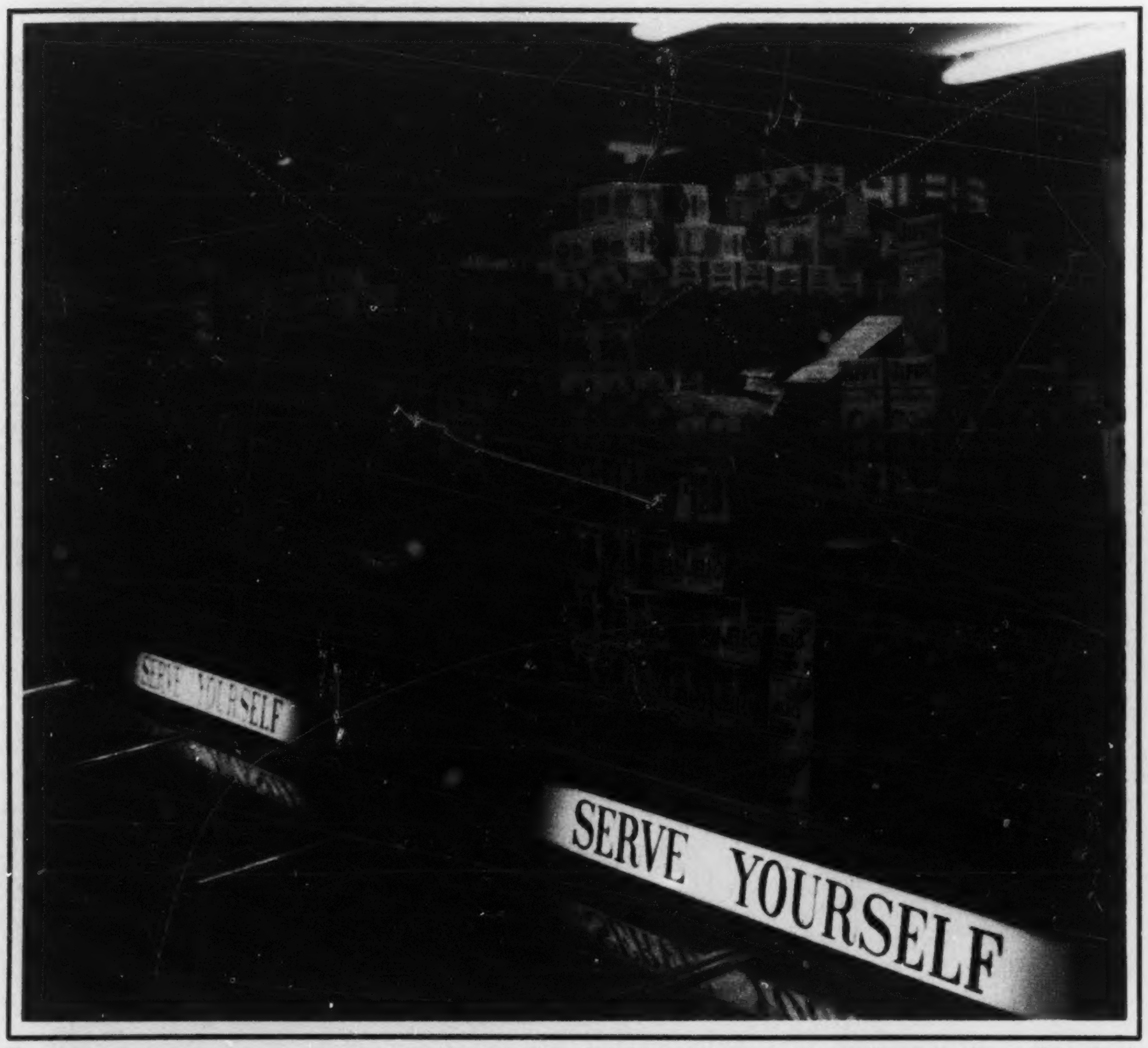
*General Merchandise Stores: Grocery Sale Trends

(retail sales in billions)

Category segment	1982	1985	1986	1987 Est
Packaged groceries excluding direct store delivered snacks	$3.1	$3.5	$3.5	$3.5
Packaged alcohol	$0.426	$0.733	$0.833	$0.926
Paper goods	$.0154	$0.269	$0.297	$0.335
Soaps/Household cleaners	$0.079	$0.105	$0.112	$0.119
Pet foods	$0.052	$0.066	$0.095	$0.103
Total grocery sales	$3.8	$4.7	$4.8	$5.0

*Discount stores account for approximately 56% of all general merchandise grocery sales. The rest is generated in department stores, variety stores & miscellaneous general merchandise stores.

Source: Malcolm Knapp Inc., New York



Drug store operators stress that their everyday food assortments are a "convenience" to their customer.

Drug Stores: Grocery Sale Trends
(retail sales in billions)

Category segment	1982	1985	1986	1987 Est
Packaged groceries excluding direct store delivered snacks	$1.2	$1.6	$1.8	$1.9
Packaged alcohol	$1.2	$1.6	$1.7	$1.8
Paper goods	$0.492	$0.828	$0.936	$1.1
Soaps/household cleaners	$0.254	$0.323	$0.345	$0.371
Pet foods	$0.032	$0.051	$0.056	$0.062
Total grocery sales	$3.2	$4.4	$4.8	$5.3

Source: Malcolm Knapp Inc., New York

more to expand their everyday assortments of snacks and convenience groceries while the majority of discount chains are concentrating more on using groceries and grocery related items such as household chemicals and laundry detergents as traffic builders.

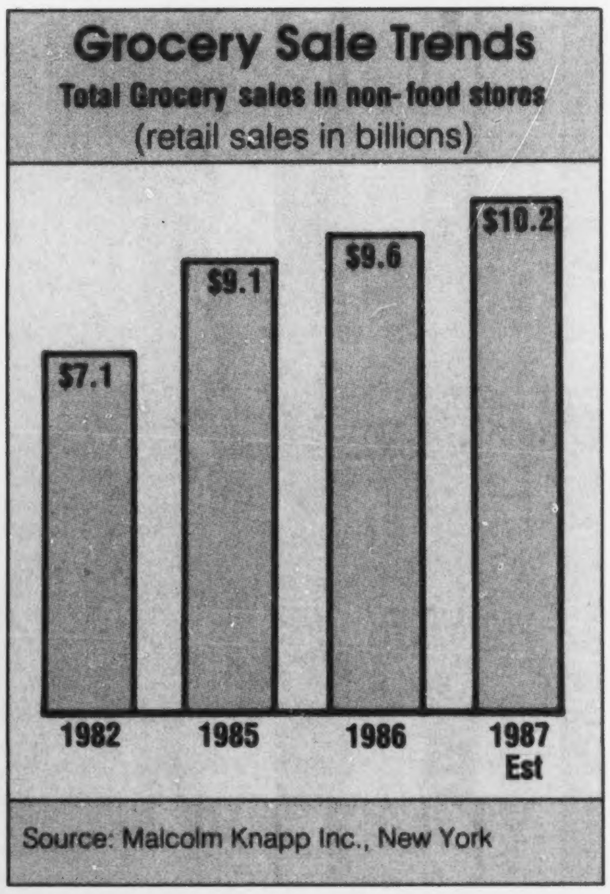
Discount store retailers are telling *FM* that they can't compete with food stores or warehouse clubs or deep discount drug stores on packaged groceries unless they feature "price, price, price."

"Our shoppers just don't see our stores as a convenient place to pick up groceries," said one K mart manager. "We can get high velocity movement on packaged grocery products, but only when we feature them at super hot prices. That means we're mostly featuring groceries that we buy on deal and promote at margins usually less than 10%."

Discounters stress in-and-out promotions

In the last few years, with the exception of Wal-Mart and Venture, the major discount store chains have begun to cut back their permanent everyday sections of packaged dry grocery items to concentrate more on in-and-out promotional foods especially cereals, cake mixes, summer and winter beverages, salad dressings, jellies, pickles, etc.

K mart, for example, which used to carry a number of permanent planogramed packaged grocery items through its distribution centers, is now primarily just stocking promotional foods that the chain only features on an in-and-out basis.


Grocery Sale Trends
Total Grocery sales in non-food stores
(retail sales in billions)

Source: Malcolm Knapp Inc., New York

At the same time, K mart is also giving more store space and more promotional emphasis to its candy and other snack food lines as well as to paper goods and household cleaners and soap.

"We still promote packaged groceries," said a K mart source, "but not as intensely as we once did. Today our ads put a much greater emphasis on candies and other types of snack foods, and we still do a very strong job of advertising paper goods and household cleaners."

Drug chains stress everyday convenience

Meanwhile, the drug chains are becoming more committed to convenience foods as a "core category" and many chains are discovering that they can carry select packaged and refrigerated groceries every day and promote them not just as a traffic building value but as a convenience and service to the local neighborhood.

Walgreen's, which now has c-food sections in some 400 of its 1,200 stores, has had the most success with this style of merchandising, but chains like Eckerd Drug in Clearwater, Perry Drug in Pontiac, Mich., Longs in Walnut Creek, Calif., SupeRx in Cincinnati, K & B in New Orleans, Pay 'n Save in Seattle, etc., are also continuing to expand convenience food assortments.

The drug chains are also continuing to promote packaged groceries, paper goods, soft drinks, pet foods and soaps and cleaners extensively, plus those chains that carry alcoholic beverages are doing a much more aggressive job merchandising that category.

Drug store retailers like Al Nehman of Dart, Don Gross at Genovese, Gary Lefferts at Austin Drug, all speak of promotional groceries as "traffic builders," designed to "provide an added incentive for people to shop our stores."

Most of the drug chains don't give permanent sections to their promotional groceries, instead they usually merchandise them on endcaps or in the high traffic promotional aisles sometimes referred to as Bargain Alley's and they often display their best buys in cut cases.

"We price so competitively on the grocery consumables," says a People's manager, "that we don't usually have a problem with residuals. They come in the store and within a few weeks, they've blown out and we've brought something else in."

"We advertise grocery items every week," says Al Nehman, sr. vp of merchandising for Dart Drug in Landover, Md. "We pioneered promotional groceries in the drug trade.

"And because we don't just dabble in this type of advertising, we've been able to maintain a nice steady market share growth pattern in what I think is one of the most competitive markets in the nation."

Snacks: growth area

By far, the biggest growth area for the grocery products in nonfood stores today, however, is snacks. Both the drug and discount store retailers call their snack food department one of the most "undeveloped" high potential profit and traffic building departments in their stores.

"Snacks are what we're pushing the strongest," says a Walgreen's source. "We advertise some four or five candy items every week in our circulars and we do almost as much with nuts and cheese balls and items like that." "Most shoppers don't think of drug chains or discount chains when they want snacks and candy," says one drug chain food buyer, "but Walgreen's has such an extensive snack and candy department and they promote it so much that their shoppers think of that area as a key department in the store."

Sources at Wal-Mart, K mart, Zayre's and Venture make similar observations.

The discount chains also make their snack food departments highly visible to their shoppers, almost always locating them in the front of their stores, and snacks are featured in just about everyone's ads.

"Everybody will tell you that incremental sales are becoming harder and harder to get," says a source at Wal-Mart.

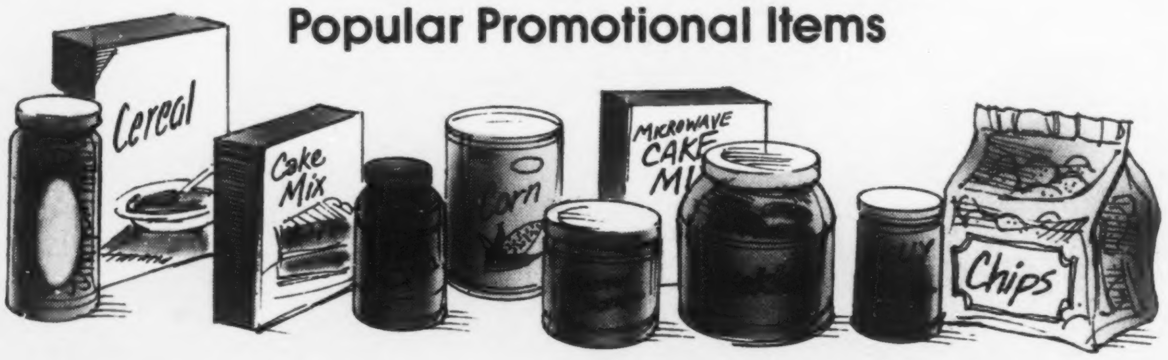
"Our strategy is to go after the traffic and low everyday prices on our consumables, plus to make the higher turning snacks like candies and soft drinks very visible in our stores."

Both the drug and the discount store retailers also point out the difficulties they are having today in maintaining strong year-to-year growth in sales in existing stores.

"People can only buy so much toothpaste or so many radios or televisions," says a Venture manager. "But if they see groceries or snacks at a good price, they'll buy on impulse and they often buy multiples which gives us a better average sale.

"If you ask me why so many of us are getting into groceries, that's the answer. They create the traffic. They create impulse sales, and they help us generate the year-to-year sales growth we need in order to be successful."

America's Best Selling Foods: Popular Promotional Items



- **Honey roasted nuts of all the major brands, Fisher, Planters, Eagle Snacks;**
- **Conventional cakes, mixes and frostings especially Betty Crocker and Pillsbury;**
- **Microwavable cake mixes like the new Pillsbury Microwavable cake mix;**
- **Breakfast cereals like Total and Wheaties;**
- **Summer Beverages like Gater Aid (Quaker), Lipton instant teas, Nestle's instant teas, Hi-C juice drinks, etc.;**
- **Soft Drinks especially Coke and Pepsi;**
- **Beers especially Coors, Bud, Miller, etc.;**
- **Dog food especially Alpo, Carnation, Ken L Ration in large sizes and cans;**
- **Cat Foods especially Puss 'N Boots, Tender Vittles, Purina in cans, moist packs and dry packages;**
- **Salad dressings especially Wish Bone and Seven Seas;**
- **Instant creamers especially Borden's Creamora;**
- **Winter Drinks especially Lipton teas, Hills Brothers coffee, Maxwell House, etc., and Carnation, Nestle's and Hershey's hot cocoa mixes;**
- **Candies especially big sized or adult bars like the M & M Mars King Size bars and the Hershey's Big Block Bar, granola bars like Quaker Oats Whipps and Dipps, boxed chocolates like Whitman's, and premium candies like Ferrero's Mon Cheri and Rocher Ferrero or Borden's Haviland;**
- **Salty snacks, especially Fisher, Eagle Snack and Planter nuts, Planter's canister snacks, Eagle Snacks, Borden's and Frito Lay chips;**
- **Microwavable popcorn, especially Betty Crocker's Pop Secret and Pillsbury's microwavable popcorn;**
- **Peanut butter especially Superman Peanut Butter and Jif;**
- **Jellies especially Welch's and Smuckers;**
- **Packaged rice especially Uncle Ben's;**
- **Pudding and jello mixes;**
- **Pickles especially Vlassic;**
- **Canned vegetables especially Green Giant;**
- **Canned juices & juice drinks like Ocean Spray, Tree Top, Seneca, etc.;**
- **Potato chips especially the hearty and Hawaiian style chips as well as these flavored chips: au gratin chips, jalapeno and cheddar chips, bar-beque chips and spicy flavored chips.**

How drug chains treat c-foods

Drug chains court "convenience minded" shoppers by expanding convenience food departments

Retail drug chains, trying to enhance their appeal to the "convenience minded shopper" are expanding their assortments of convenience style groceries.

Many chains including Walgreen's, Eckerd, Perry's and People's now have limited assortments of select convenience foods in all their stores and a large number are experimenting with expanded convenience food departments featuring canned and packaged groceries as well as refrigerated and frozen foods.

Retailers like Dave Peterson, vp of merchandising for Perry Drug in Michigan, say that convenience foods are a "growth area" for drug store merchants as well as an "opportunity to satisfy the convenience minded shoppers."

Today approximately 10% of all chain drug stores have at least a limited assortment of convenience foods, not counting their sections for candies, chips, nuts, soft drinks and other traditional snacks.

Most also have "convenience" departments for shoppers looking to purchase pet foods, household chemicals and paper goods as well as wine, beer and alcohol wherever liquor licensing is feasible.

Walgreen's

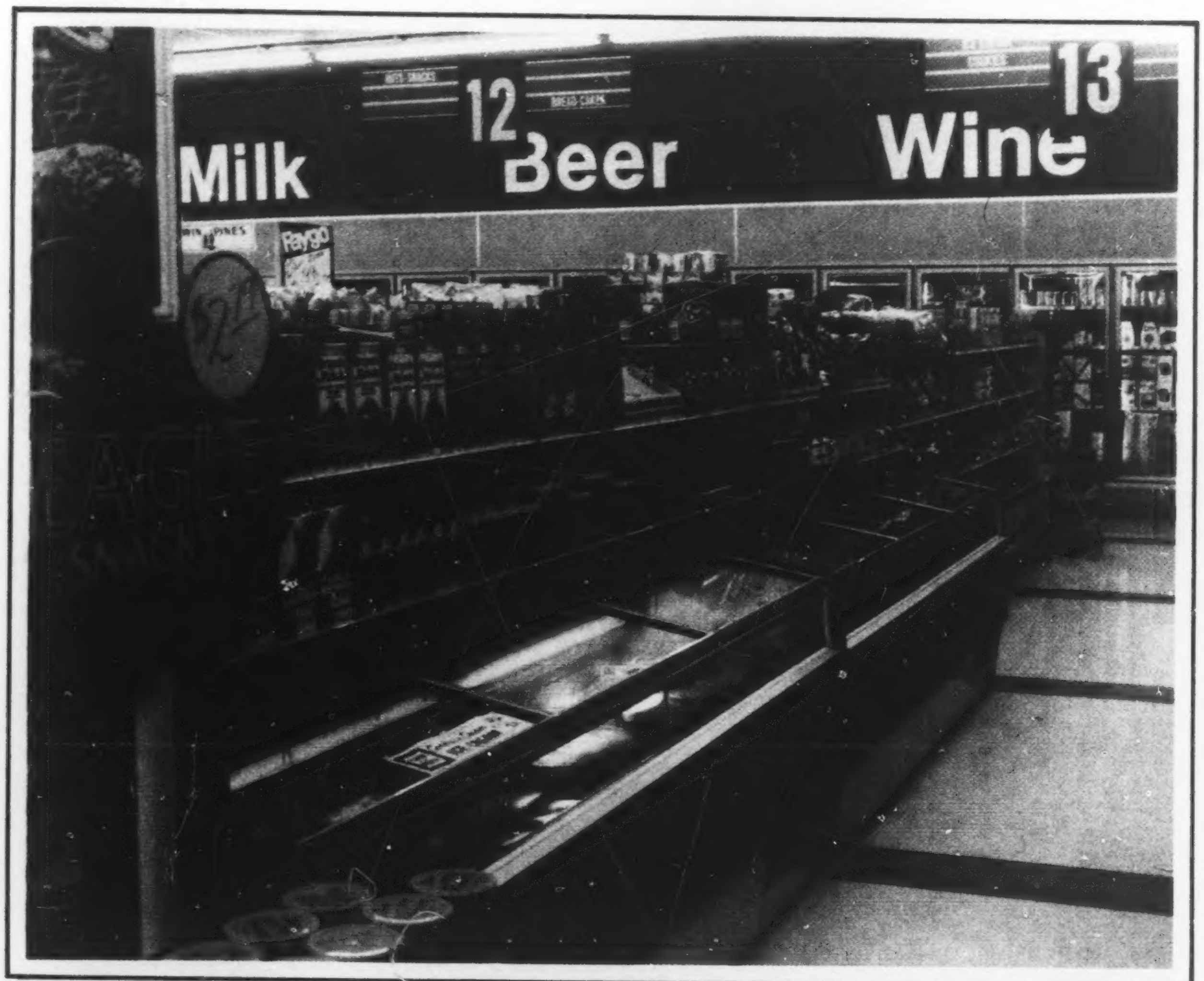
Walgreen's, which first started experimenting with c-foods back in 1979 with just a handful of stores, now has about 440 stores with full c-food departments, and management says they plan to add about 60 more in 1987.

In addition, almost all Walgreen stores carry at least some assortment of convenience foods, particularly milk, ice cream, cold soft drinks, and whenever possible cold beer and wine. All stores also have a full candy and snack section plus sections for pet foods, household chemicals, paper goods and laundry supplies.

Currently about 900 Walgreen's also have liquor departments, and Walgreen's top management says that it will continue to expand its liquor sections "wherever we can."

Walgreen's makes it a priority to keep prices in its c-food depart-

An estimated 25% of all chain drug stores have limited assortments of convenience foods including soft drinks, milk, bread, ice cream and snacks.



Chains like Walgreen's and Eckerd Drug regard c-foods as an "opportunistic" add-on category.

ments competitive with convenience food stores like 7-Eleven, and they always highlight the department with in-store signs, window banners and local advertising.

Typically Walgreen's keeps its c-food department to about 1,000 sq. ft., and typically the mix is somewhat customized to the individual markets. Suburban stores will give more facings to cereals than inner city stores because managers say that cereals sell in suburban stores while generally they don't turn that well in inner city stores.

On the other hand, inner city stores will carry more facings of items like canned soups, coffee, sugars, creamers, yogurt and chilled juices and soft drinks because these types of items appeal to the office workers who are buying breakfast, lunch and snack items in Walgreen's c-food stores.

"The whole secret is knowing what your customers want and giving it to them," says one manager.

Eckerd's

Pete Agostino, the Corporate Merchandise Manager responsible for Eckerd's c-food sections, says that the best-selling items are the high tonnage consumables that people can eat "right in the store if they want to."

Agostino, whose background includes working for Pathmark Food & Drug stores as well as running a small chain of about 60 convenience stores, says the he fashions his mix around the things that people tend to buy and use most frequently, such as milk, soft drinks, beer and snacks.

Right now, Eckerd has two cooler cases for soft drinks in all its stores, and the plan is to expand the selection as quickly as possible so that all stores also have milk, cold beer and eventually cold wine in the coolers.

Right now about 40 Eckerd stores also have mini-combination food sections and 30 of these stores also have microwavable food-to-go sections. All Eckerd stores also have snack and candy sections as well as household chemicals and supplies.

Like the snacks and household supplies, which Eckerd has always carried, the cooler sections are there to serve the convenience of the customer.

"The way customers use drug stores today is changing," says Agostino. "Unless they have a prescription they need filled, they only stop off on their way to and from work to pick up a fill-in item like a shaving cream. If they also need milk or a soft drink, they're likely to go to a food store and get their shaving cream there at the same time.

"We want the cold beverages in our stores so we can make it more convenient for shoppers to use us as a fill-in trip. That way we hope we'll keep the shaving cream sale plus pick up the incremental sale of the milk or soft drink.

The full Eckerd c-food department totals about 80 linear feet, excluding household chemicals, laundry supplies and pet foods which are not related departments.

The 12-ft. dry grocery section and the 3-ft. section for bread and snack cakes are only added in select stores where Agostino says district managers have identified a need or an opportunity for Eckerd to sell c-foods.

"The convenience food sale is an opportunistic sale for us," Agostino says. "It's an opportunity to get incremental dollars per store, but we can only find such opportunities on specific types of sites, so we let the district people tell us when and where they see a need for the convenience dry groceries."

SupeRx

SupeRx has cut back somewhat

Major Chain Drug stores: Who's Who in Convenience Foods

Chain	Total number of stores 12/86	Number of stores with convenience food departments
Walgreen's, Deerfield, Ill.	1300	430
Gray/Drug Fair, Cleveland, Ohio	468	281
Revco, Twinsburg, Oh	2000	200
Perry Drug, Pontiac, Mich.	203	189
SupeRx, Cincinnati, Oh.	500	150
K & B Inc., New Orleans, La.	147	140
Longs, Walnut Creek, Ca.	222	110
Pay 'n Save, Seattle, Wash.	106	106
People's, Alexandria, Va.	870	60
Eckerd, Clearwater, Fla.	1500	40
Genovese, Melville, NY	78	3

Source: Food Merchandising research

20%
11
20%
10
9
Beauty Aid

The mix in a chain drug convenience food department varies by neighborhood, but the dry packaged grocery assortment almost always includes juices, cereals, ketchups and relishes.

on the overall size of its c-food sections. The chain currently has convenience foods in about 150 stores, but only 30 to 40 stores have full departments with extensive packaged and refrigerated groceries.

Five years ago, it wasn't uncommon for the refrigerated section in SupeRx's mini-combo stores to have about 24 doors. Now the average section is closer to 12 doors.

SupeRx sources say the c-food concept is practical for a drug store, but that it can be "overdone. The key is to provide convenience, but not to over-develop the food part of the business," said one source.

"You can't forget that you're a drug store first."

Perry

At Perry Drug headquartered in Pontiac, Mich., there are more than two-dozen stores with full convenience food sections plus limited assortments of convenience foods including milk and other cold beverage are now in over 93% of the chain's stores.

The full convenience food departments are in all Perry's 24 hour stores, and in select stores where there is no direct competition from traditional supermarket or convenience food stores.

The typical Perry convenience food department takes up about 30 linear feet and includes milk, juices, breads, cookies and other baked goods snacks.

Stores with the full convenience assortment have the 30 linear feet plus another 64 ft. of packaged and canned groceries.

Perry does not advertise its c-food sections and does not use any outside signage to attract new shoppers. "The c-food departments," says Peterson, "are for the convenience of the neighborhood shoppers and they're very visible to anyone walking into the store."

Perry, which is currently doing a direct product profit analysis on all its drug store merchandising categories, says that the c-food department is "standing up very well" as a profit center, even though it is supplied entirely by jobbers and food wholesalers.

"All 24 hour stores will definitely have full c-food departments as we open them," says Peterson, "and so will any other stores where we feel a need exists."

Milk is currently the only convenience food Perry is now promoting.

Convenience foods in discount stores

In the discount store field, most chains have stopped trying to carry foods every day to concentrate instead on just using foods as a traffic builder.

"We're not like drug stores," said a Target source. "We can't sell convenience. All we can offer our shopper is price."

However, Wal-Mart, which has a number of stores in small towns and country markets, and Venture Discount stores in the midwest, are both exceptions.

Wal-Mart faces less competition from food stores, and its small town stores can offer their customers the convenience of one-stop shopping.

Consequently Wal-Mart has an everyday food section that features about 100 sku's in some 80 ft. of shelf space. Except for the Thanksgiving/Christmas season, Wal-Mart maintains about three gondolas of food/grocery items every day.

The usual setup is for the candy, nut and chip section to lead into the packaged grocery section. The nonsnack assortment includes pickles, chili, juices, teas, etc.

Paper goods and household cleaners are in other sections of the store as they are in Walgreen's, and pet foods are usually in two locations, along the perimeter or the walls in large 25 and 50 lb. bags displayed on pallets and in a gondola that is usually toward the rear of the store.

Like Walgreen's, Wal-Mart does not usually promote its everyday sections in ads or circulars. Most of the sales come from displays and from in-store impulse sales.

Venture has a similar merchandising program. They carry more of the mainstream categories like cereals, pancake mixes, jellies and beverages.

Venture does advertise its foods, working basically on promotions of products carried in its everyday department.

Party Shop
13
Coca-Cola
PEPSI-COLA

Many drug chains like to merchandise beverages, snacks or other consumables on the endcaps anchoring their c-food sections.

"Milk is definitely a planned purchase and a good traffic builder," says Peterson. "so we use it as a leader. We feel the rest of our sales, however, are motivated by impulse shopping and the need to make fill-in purchase."

People's

At People's Drug headquartered in Alexandria, Va., there are now about 60 stores with c-food departments compared to about 20 in 1982.

Here too, managers say the success is totally dependent on the mix, the neighborhood demographics and the external competitive market in each location.

Most People's managers say their departments have been very successful, turning about 10 times a year and doing a lot to create "new business for us."

A few, however, say that People's can't always be sure of success. "The situation can be fine for a while, then something will happen to change all that," said one manager. "We still don't know all the answers.

"But if food stores can be drug stores too," he added, "then why can't drug stores also be convenience food stores. Everybody today is taking a piece of someone else's market. Packaged groceries, laundry cleaners, pet foods, cold beers, these are all things we can offer our customers as a convenience.

"As I see it, if I can make their shopping trip more convenient, then my stores are ahead of the competition."

Drug stores: strategies for convenience foods

Chain drug store retailers have two primary merchandising strategies for convenience foods.

They either see the category as an opportunity to service a large base of regular everyday users as Mickey Kole does at Perry Drug or they see it as a chance to cater to a shopper "who hasn't got a food store nearby and who'll use us until something better comes along."

Walgreen's president Fred Canning's says his strategy is to make Walgreen's a "convenient, midweek fill in store".

"We're very competitive on basics like milk and coffee," says Canning, "and we'll continue to add food centers to new and existing stores wherever appropriate."

Many drug chain executives say, however, that it's virtually impossible for corporate management to know exactly how many c-food departments they will open in any given year.

"There is no such thing as a big charge that wins the battle once and for all," one source says. Instead, he compares the rolling out of convenience food departments to trench warfare. There are a lot of "little battles to be fought and won," he says.

Operations controls expansion

"Even Walgreen's," he says, "which has done the best job of all of us in developing c-foods knows about the little battles. You can identify the right location and go in and be very successful for a year or two.

"Then the local food store will get smart and clean up its act and put in scanners or extra help and suddenly people will go back to shopping there because they've made it more convenient again."

Or, as another source puts it, "the sleepy 7-Eleven you've been competing against will suddenly get tough and they'll lower their prices or start tying into the Southland promotions, and then you have a fight on your hands."

On average, drug store retailers who have c-food departments say that it's crucial to put them in the right stores and to stock them with a product mix that features the items that people buy most often. The corporate concensus also is that this is a business that has to be driven operationally.

"Convenience foods is not a department that can be controlled totally from the central offices," says Perry's Dave Peterson. "The field people know the individual markets best and they can spot a need, and react the fastest if that need disappears or if the market changes."